

# **AIG Israel Insurance Company Ltd**

## **Interim Financial Report**

**(Unaudited)**

**As of September 30, 2013**

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**AIG Israel Insurance Company Ltd. ("the company" –  
Directors' Report of Company's Business  
for the Period Ended September 30, 2013**

The Directors Report of the Company's Business as of September 30, 2013 ("directors' report") reviews the company and the development its business as took place during the first three quarters of 2013 ("the reported period"). The information in this report are as of September 30, 2013 ("the report date"), unless otherwise is explicitly indicated.

The company is an 'insurer' as this term is defined by the Supervision of Financial Services Law (Insurance), 1981. Therefore, this report was prepared according to the Regulations 68-69 and the second addendum to the Supervision of Insurance Businesses Regulations (Details of Report), 1998 and in accordance with the directives of the Supervisor of Capital Markets, Insurance and Savings in the Ministry of Finance ("the Supervisor of Insurance" or "the Supervisor"). The Directors' Report was drawn up under the assumption that the company's 2012 periodic report is also available to readers thereof.

The financial information included in this report is in reported amounts. All information in this report is in thousand NIS unless otherwise is stated.

The business of the company is in areas requiring extensive professional knowledge, where many professional terms are essential to understanding the business of the company. To present the description of the corporation's business in as clear a way as possible, those professional terms are used with accompanied explanations as much as possible.

The Directors' Report is an inseparable part of the interim financial statements and should be read with all parts thereof as one unit.

**Forward-looking information**

This Directors' Report, which describes the company, the development of its business and areas of operations may contain forward-looking information within the meaning of this term in the Israel Securities Law, 1968 ("the Securities Law"). Forward-looking information is uncertain information regarding the future and is based on the information available to the company on the date of the report and includes the subjective assessment of management based on assumptions and assessments of the company and/or its intentions as of the date of the report. Nothing in providing this information as above may be construed as providing warranty for its veracity or completeness, and the actual activity and/or results of the company may differ from those presented in the forward-looking information presented in this report. It is possible, in certain instances, to identify sections containing forward-looking information by the appearance of wording like: "the company estimates", "the company believes", "the company intends", etc, but this information may be worded differently or it may be explicitly indicated as forward-looking information.

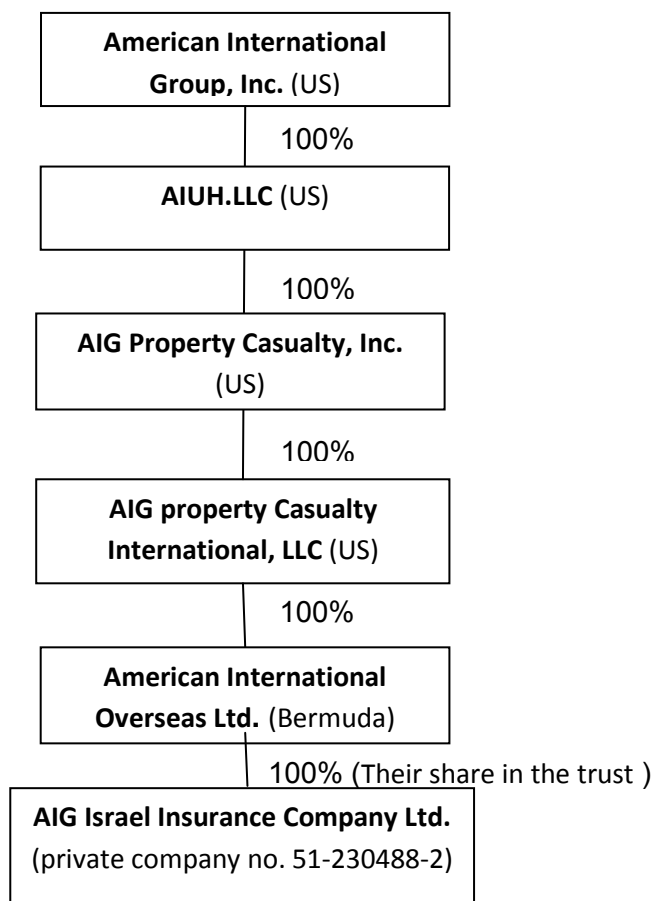
## 1. Condensed description of the company

### 1.1 Organizational structure

The company was incorporated in Israel on March 27, 1996 as a limited liability privately-owned company. The company commenced its insurance activity in May 1997. The company does not hold any subsidiaries or affiliates

The sole shareholder of the Company is American International Overseas Ltd ("AIO"), which holds the entire issued share capital of the Company. AIO is an insurance company in the global AIG corporation (American International Group, Inc.), a leading international insurance and finance corporation, and as of the date of this report an A- rated company by leading rating agencies Fitch, Standard & Poor's (S&P) and Moody's ("the rating agencies"). AIO is rated A by Fitch as of the date of this report.

The following is the holding structure in the company:



The Company has insurer licenses granted by the Israel Supervisor of Insurance to engage in the general insurance line and life insurance line according as follows: property vehicle insurance, compulsory vehicle insurance, comprehensive home insurance, health insurance (sickness and hospitalization insurance and personal accident insurance), commercial insurance (property loss insurance, comprehensive insurance to businesses, engineering insurance, employers' liability insurance, third-party liability insurance and product liability insurance, cargo in transit insurance, insurance for other risks (limited to damages caused by crime and embezzlement), comprehensive life insurance and insurance covering businesses originating from overseas applicable to certain insurance lines.

The activity of the company comprise of two business divisions (retail insurance and commercial insurance), headquarter departments, sales and customer service.

The Company is marketing and selling individual insurance policies, mainly directly to customers (without mediation of insurance agents) through Central customer service system.

Most of the commercial insurance business and collective health insurance as well as a small portion of the retail business are carried out through the intermediation of insurance agents. As a result of those marketing methods, the organizational structure of the company is based on activity through a head office in Petach Tikva, and two smaller branches in Haifa and Ashdod.

## **1.2 Lines of business**

The main activity of the company is in the retail insurance business. The main lines of business in the company are as follows:

- General insurance - motor vehicle property insurance business
- General insurance - compulsory motor vehicle insurance business
- General insurance - home insurance business
- Health insurance – health insurance business
- Life insurance – life insurance business (life assurance risk only).

The Company continued in the first three quarters of 2013 to increase the scale of gross premiums that grew by 5.1% over the first three quarters of 2012. Total gross premiums in the reported period was NIS 677.6 compared to NIS 644.6 in the corresponding period of 2012.

Set forth below are the company's premiums by major lines of operating segments (in thousands of NIS):

<b>1-9.2013</b>	<b><u>Life insurance</u></b>	<b><u>Health insurance</u></b>	<b><u>General insurance(*)</u></b>	<b><u>Total</u></b>
Gross premiums	75,555	152,297	449,757	677,609
Premium retention	59,240	141,645	350,422	551,307
% of total gross	11.2	22.5	66.3	100.0
% of total retention	10.7	25.7	63.6	100.0

<b>1-9.2012</b>	<b><u>Life</u></b>	<b><u>Health</u></b>	<b><u>General</u></b>	<b><u>Total</u></b>
Gross premiums	65,702	148,593	430,351	644,646
Premium retention	50,048	131,182	315,367	496,597
% of total gross	10.2	23.1	66.7	100.0
% of total retention	10.1	26.4	63.5	100.0

<b>1-12.2012</b>	<b><u>Life</u></b>	<b><u>Health</u></b>	<b><u>General</u></b>	<b><u>Total</u></b>
Gross premiums	89,476	197,205	553,774	840,455
Premium retention	68,476	175,510	411,798	655,784
% of total gross	10.6	23.5	65.9	100.0
% of total retention	10.4	26.8	62.8	100.0

(\*) Additional data by major lines of business – see note 4 to the condensed financial statements.

### **Dependence on clients or marketing entities**

In most of its lines of business, the company is not dependent on a single client. For further details see sections 3.1.4, 3.2.4, 3.3.4, 3.4.4, 3.5.4 and 3.6.4 in Chapter A (description of company's business) in the company's 2012 periodic report.

### **Developments or material changes in agreements with reinsurers**

For details regarding the company's reinsurers, see sections 3.1.6, 3.2.6, 3.3.6, 3.4.6, 3.5.6 3.6.6 and 5.4 in Chapter A (description of company's business) in the company's 2012 periodic report.

### **Unusual events since the issuance of the last financial statements**

In the reported period, no events or exceptional issues that depart from the ordinary course of business arose that may have material impact on the company.

## 2. Description of business environment

In accordance with data published by the division of Capital Market, Insurance and Savings at the Israel Ministry of Finance, there are more than 20 Israeli insurance companies currently active in Israel; most of these companies are engaged in general insurance. According to these data, as of June 30, 2013, general insurance premiums amounted to NIS 10,601 million (without Karnit), while the share of the five largest insurance companies: Harel Insurance Company Ltd, the Phoenix Insurance Company Ltd, and Clal Insurance Company Ltd, Menora Insurance Company and Migdal Insurance Company amounted to NIS 6,802 million, or 64.2% of total general insurance premiums in the Israeli market.

### **Trends in the insurance sector, their effect on company's business in the reported period and on its financial statements data**

For details see section 5.1 in Chapter A (description of company's business) in the company's 2012 periodic report.

### **The impact of new laws, regulations and guidance on the Company's business in the reported period and data in the financial statements**

For details, see 3.1.1, 3.2.1, 3.3.1, 3.4.1, 3.5.1, 3.6.1 and 5.2 in Chapter A (Description of Corporate Business) of the 2012 periodic report. The following provides a summary review of key legislation changes and issues that are relevant to the Company, which were introduced by the Supervisor of Insurance in regulations, circulars, opinion papers and drafts during the reported period or shortly before issuing this report:

- On July 3, 2013, the Supervisor issued Insurance Circular 2013-1-3 titled "Variables in Compulsory Vehicle Insurance", whose goal is to add variable and categories for setting insurance rates in the compulsory vehicle insurance segment. The provision of this circular will apply to premiums in policies coming into effect beginning on February 1, 2014 and thereafter.
- On July 9, the Supervisor issued Draft Institutional Entities Circular 2013-157 titled "The Treatment of Problematic Debt and Actions of Institutional Entities to Collect Debt – Amendment". The aim of this draft is to provide more guidance over a previous circular on that matter (a circular dated April 2006 on this matter), provisions on the economic sense in a proposed debt settlement, including relative to alternatives. Additionally, the Supervisor issued a clarification on a court-appointed expert opinion for supporting a debt arrangement, where it clarifies the tension existing between different viewpoints, of the institutional entity on the one hand and the expert on the other. The opinion paper states that disagreement or non-acceptance of the expert opinion does not constitute a violation of the fiduciary duty of the institutional entity towards savers.
- On July 10, 2013, the Supervisor issued an opinion paper titled "Principles for Drafting Insurance Plans", which sets principles to guide insurers in drafting insurance plans in such way that ensures they contain no unfair terms and will be simple and clear.

Among other things, the Supervisor stated that the coverage in the plan has to be meaningful to address a real need of the plan's target audience; the plan has to be worded such that it does not prejudice or provide the insurer an unfair advantage; the plan will include the required disclosure to understand the terms of the policy; a distinction between qualifying and non-qualifying drivers for the insurance plan. The effective date of this opinion paper for property motor vehicle insurance and comprehensive home insurance is June 1, 2014; the effective date for personal injury insurance plans is December 1, 2014.

- On July 17, 2013, the Supervisor issued Institutional Entities Circular 2013-9-8 titled "Amendments to a Number of Circulars Discussing Internal Control over Financial Reporting, Declarations, Reports and Disclosures and Management Responsibility on Internal Control over Financial Reporting. The effective date of the Amendment was the date of issuing this circular.
- On August 8, 2013, the Supervisor issued the Institutional Entities Circular 2013-9-11 regarding management of business continuity in institutional entities. Among other things, the circular sets out provisions stipulating the minimal measures an institutional entity should pursue in order to maintain business continuity in case of an emergency.
- On August 8, 2013, the Supervisor issued Institutional Entities Circular 12-9-2013 titled "Annual Report on Implementation of Legal Provisions by Institutional Entities." The circular requires institutional investment entities to also include in the disclosure accompanying the annual financial statements information on compliance with legal provisions on various issues: risk management, corporate governance, client rights, etc. and that those issues will be revised from time to time at the decision of the Supervisor. The circular will become effective from the 2013 annual financial statements.
- On August 14, 2013, the Supervisor issued Institutional Entities Circular 13-9-2013 titled "Investment Rules Applicable to Institutional Investors." The purpose of the circular is to provide detailed guidance on the following issues: exceeding investment rate limits; appointment of director in a corporation by virtue of holding controlling instrument of the institutional entity in corporation; specialized investment vehicles; specialized index tracking investment; investment in partnership and in land title through a non-partnership corporation; providing loans, lending securities and investment in non-marketable debt assets; transaction with or through a related party; investment in a related or interested party and control and holding controlling instruments by an insurer. The circular became effective on the date it was issued.
- On August 19, 2013, the Supervisor issued Insurance Circular 4-1-2013 titled "Statute of Limitations on Insurance Contracts with Disability Coverage." The purpose of this circular is to provide guidance on how requests for statute of limitations extensions in disability claims are managed and to set rules on the disclosure that an insurer has to provide in this respect. The effective date of the circular is January 1, 2014.  
The effective date of rules concerning the disclosure in insurance policy and the insurance details form is December 1, 2014.

Following the issue of that circular, a Supervisor opinion was issued on August 26, 2013 on the disclosure duties of insurers, which clarifies that if an insurer does not comply with the disclosure duty in the circular, the Supervisor may consider, in the circumstances of the matter, whether to deem the insured as if requested a statute of limitations extension on the dates specified by the circular.

- On August 22, 2013, the supervisor issued his position on indemnification in private surgery coverage. According to that position of the Supervisor, beginning on August 22, 2013, no insurance plan can be approved covering private surgery in Israel and allowing a client to choose between indemnification on the cost of surgery by the insurer and a monetary compensation for a surgery performed as part of SHABAN (private surgeries in public hospitals) to prevent a potential bias of an insurance client to choose a provider not based on medical considerations, but rather on financial grounds. In addition, it was stated in the opinion paper that beginning on January 1, 2014, it will be prohibited to market or renew such policies.
- On August 25, 2013, the Supervisor issued Institutional Entities Circular 16-9-2013 titled "Outsourcing in Institutional Entities." The purpose of the circular is to set general rules for using, monitoring and controlling outsourcing in institutional entities. The effective date of the circular is July 1, 2014, and its provisions will apply to agreements entered into or renewed on the date of issuing the circular and thereafter, or expanded after the issuance date, even if signed before that date.
- On August 26, 2013, the Supervisor issued Institutional Entities Circular 17-9-2013 titled "Deeds of Trust for Issue of Non-Government Bonds – Provisions for Public Comments." The purpose of the circular is to amend and add provisions to Institutional Entities Circular 3-9-2010, issued July 14, 2010, titled "Provisions for the Investment of Institutional Entities in Non-Government Bonds." An addendum was added to the circular, introducing contractual conditions that should be included in deeds of trust of non-government bonds. The effective date of the circular is November 1, 2013.
- On August 28, 2013, the Supervisor issued a draft regulation – Financial Services Supervision Regulations (Insurance) (Financial Reports) (Amendment), 2013, and draft Insurance Circular 156-2013 on the revision of disclosure provisions in the description of the corporation's business report and the directors' report of an insurance company. The purpose of the draft is to improve the reliability and relevance of the financial information, while facilitating a prompter publication of financial statements, to allow the public to get more up-to-date and relevant information about the financial position and operating results of the company, to increase transparency and improve the ability of report users to make decisions.
- On August 29, 2013, the Supervisor issued Insurance Circular 6-1-2013 titled "Preparing Plans for Insuring against Critical Illnesses". The purpose of the circular is to revise the definition of critical illnesses covered by a policy, as previously defined in circular 16/2003 titled "Definitions of Conditions in Critical Illness Insurance," to substantiate them on current medical definitions and provide guidance for designing insurance plans for critical illnesses. The effective date of the provisions in the circular are June 1, 2014 and they will apply to plans marketed or renewed beginning on that date.



- On August 29, 2013, the Supervisor issued draft Institutional Entities Circular 173-2013 titled "Provision for Calculation of the Value of Non-marketable Asset of an Institutional Entity." The purpose of the draft is to set principles for calculating assets held by institutional investors, to ensure that accumulated gains or losses in savers' accounts will reflect the economic value of such assets.
- On September 17, 2013, the Supervisor issued a second draft of Institutional Entities Circular 143-2003 titled "The Position of the Supervisor and Clarification on the Conduct of an Institutional Entity when Engaging in A Significant Transaction." The above draft, lists the expectations of the Supervisor on the practices of an institutional investor prior to making decisions on engaging in a significant transaction, such as the expectation from an institutional entity to put in place processes for characterizing, assessing and managing significant transaction, and that the institutional investor has to be ready to identify, review and manage risks that such a transaction creates, and it may not bid for a significant transaction if it has no appropriate time to assess and prepare. The draft notes that the practices of institutional entities of this kind will be reviewed from time to time, and that such review will cover processes implemented prior to the engagement and their documentation, data available to decision makers on the transaction, analyses made, documents and reports filed and discussions held within the institutional entity, as well as other factors, to the extent relevant.
- On October 1, 2013, the Supervisor issued draft regulations – Financial Services Supervision Regulations (Provident Funds) (Locating Clients and Beneficiaries) (Amendment), 2013, and a draft amendment of Institutional Entities Circular 1-9-2012 titled "A Procedure for the Location of Clients and Beneficiaries" with the aim of revising some provisions in the regulations and the circular, both issued in 2012, to regulate the search for clients and beneficiaries by institutional entities.
- On October 3, 2013, the Supervisor issued Insurance Circular 7-1-2013 titled "Amendment of the Consolidated Circular Provisions for the Compulsory Motor Vehicle Insurance Industry." The purpose of the circular is to modify the procedure for pricing premiums that insurers can charge their clients, to upgrade the use of database for detecting fraud in compulsory motor vehicle insurance industry and to introduce a format for questions and answers in the underwriting questionnaire. The provisions will apply to policies in the compulsory motor vehicle insurance whose insurance term begins on May 1, 2014 and thereafter, except for a number of provisions whose purpose is information validation in the database for insurance fraud detection during the underwriting process, which will apply to motor vehicle insurance policies whose insurance term begins on January 1, 2014 and thereafter.
- On October 16, 2013, the Supervisor issued a draft of Chapter 1 in Part 2 of Title 5 of the Consolidated Circular titled "Measurement, Capital and Asset Management and Liabilities." The purpose of the Consolidated Circular is to create an ordered and comprehensive codex to allow orientation within the different guidance and make it easy for supervised entities.

### 3 Financial position and results of operations

Set forth below are principal balance sheet data (in thousands of NIS):

	<b>September 30, 2013</b>	<b>September 30, 2012</b>	<b>December 31, 2012</b>
Deferred acquisition expenses	139,653	133,341	130,191
Financial investments and cash	1,453,946	1,344,243	1,432,882
Reinsurance assets	664,144	585,418	585,532
Other assets	290,051	246,808	240,440
<b>Total assets</b>	<b>2,547,794</b>	<b>2,309,810</b>	<b>2,389,045</b>
Shareholders' equity	634,250	532,705	577,104
Liabilities in respect of insurance	1,570,209	1,431,516	1,409,340
Other liabilities	343,335	345,589	402,601
<b>Total equity and liabilities</b>	<b>2,547,794</b>	<b>2,309,810</b>	<b>2,389,045</b>

Set forth below are principal comprehensive income data by principal segments of operations (in thousands of NIS)

	<b>1-9.2013</b>	<b>1-9.2012</b>	<b>7-9.2013</b>	<b>7-9.2012</b>	<b>1-12.2012</b>
Income from compulsory motor vehicle property insurance line	14,441	16,124	6,457	7,261	24,146
Income from motor vehicle insurance line	14,041	100,537	4,889	10,531	121,185
Income from home insurance line	11,620	19,677	5,851	7,743	25,697
Income from commercial insurance line	(6,845)	(6,036)	562	(1,048)	(5,290)
Income from health insurance	29,630	22,601	9,176	13,169	40,027
Income from life	4,793	63	2,670	3,436	3,924
Other – income not carried to lines of business	23,412	21,764	11,764	16,951	34,079
<b>Income –</b>	<b>91,092</b>	<b>174,730</b>	<b>41,369</b>	<b>58,043</b>	<b>243,768</b>
Taxes on income	(33,946)	(61,792)	(15,730)	(20,973)	(86,431)
<b>Income for the period and total comprehensive income for the period</b>	<b>57,146</b>	<b>112,938</b>	<b>25,639</b>	<b>37,070</b>	<b>157,337</b>

\* Additional data by principal segments – see note 4 to the financial statements.

Set forth below is an explanation of the development of some of the above presented data:

- a. Company income before tax in the reported period was NIS 91.1 million compared to a NIS 174.7 million income in the corresponding period of 2012. In 2012, and according to an approval obtained from the Supervisor, the Company changed the period for keeping the accumulation in compulsory vehicle business from five to three years. This change significantly increased income before tax in 2012 by NIS 79.3 million and increased the income and total comprehensive income in the corresponding period by NIS 51.3 million.
- b. Company income from net investment in the reported period was NIS 55.4 million compared to a NIS 67.4 million income in the corresponding period of 2012.
- c. Company income from property vehicle insurance was NIS 14.4 million compared to a NIS 16.1 million income in the corresponding period of 2012. The lower income mainly resulted from an increase in the claims ratio, and a significant part of this increase is attributed to damages caused by the floods in early January 2013.
- d. Company income from compulsory vehicle insurance was NIS 14.0 million in the reported period compared to a NIS 100.5 million income in the corresponding period of 2012. The marked decrease in income arose from the decision of the company in 2012 to keep an accumulation for three instead of five years. See paragraph a. above.
- e. Company income from home insurance in the reported period was NIS 11.6 million from NIS 19.7 million in the corresponding period of 2012. The decrease in income was mainly due to an increase in claims ratio and a substantial portion of this increase is attributed to damages caused by floods in early January 2013.
- f. Company loss from professional liability insurance in the reported period was NIS 6.4 million from NIS 2.6 million in the corresponding period of 2012. The increase in loss was due to an increase in claims ratio and a decline in investment profits.
- g. The loss of the Company from other property industries was NIS 0.8 million during the reported period, similar to the loss of NIS 0.7 million in the corresponding period of 2012.
- h. Company loss from other liabilities business was NIS 1.2 thousand in the reported period compared with a NIS 4.1 million loss in the corresponding period of 2012. The reduced loss was mainly due to an improvement in claims ratio.
- i. Company income from health insurance was NIS 29.6 million in the reported period compared to a NIS 22.6 million income in the corresponding period of 2012. The increase in income was mainly due to an improvement in the claims ratio.

- j. Company income from life insurance was NIS 4.8 million in the reported period compared to a NIS 0.1 million income in the corresponding period of 2012. The increase in income was mainly due to an improvement in the claims ratio and expenses ratio.

### **Shareholders' equity and capital requirements**

As of September 30, 2013, company's shareholders' equity exceeds the shareholders' equity required as of that date under the Insurance Business Regulations (Minimum Capital Required from an Insurer), 1998 by NIS 136.9 million.

For details regarding the amounts of equity required from the company and the existing amounts in accordance with the minimum equity regulations, see note 5 to the financial statements.

### **4. Cash flows and liquidity**

Net cash provided by operating activities in the reported period was NIS 48.0 million, compared to NIS 9.4 million in the corresponding period in 2012.

Net cash used in investing activities in the reported period amounted to NIS 4.7 million, compared with amount of NIS 6.3 million in the corresponding period in 2012.

As a result of the above, the balance of cash and cash equivalents in the reported period increased by amount of NIS 43.5 million and amounted to amount of NIS 137.1 million as of September 30, 2013 (after neutralization of the effect of exchange rate fluctuations on the balance of cash and cash equivalents).

### **5. Sources of funding**

All of the company's operations are funded using self resources and capital. As of the date of confirmation of this report, the company does not use any external funding sources.

### **6. The effect of external factors and exposure to risks**

As to information regarding the effect of external factors, see section 5.1 in Chapter A (description of company's business) in the company's 2012 report. For information regarding the company's exposure to insurance risks, market risks, liquidity risks, credit risks and operating risks, see Part G in Chapter A (description of company's business) in the company's 2012 report and note 27 to the financial statements.

### **7. Financial statements**

No significant events have taken place subsequent to balance sheet date.

### **8. Disclosure regarding the company's internal auditor**

No significant changes were made to the information included in the 2012 annual report regarding the internal auditor.

## **9. CEO and CFO Disclosure regarding the effectiveness of controls and procedures applied to company's disclosures**

### **Controls and procedures applied to disclosure**

The Company's management, with the collaboration of the company's CEO and CFO, assessed as of the end of the period covered by this report the effectiveness of the controls and procedures with respect to the company's disclosure. Based on this assessment, the company's CEO and CFO concluded that as of the end of this period the controls and procedures with respect to the company's disclosure are effective in order to record, process, summarize and report the information that the company is required to disclose in the quarterly report pursuant to the provisions of the law and the reporting provisions issued by the Commissioner of Capital Markets, Insurance and Savings, and on the date set in these provisions.

### **Internal controls over financial reporting**

In the course of the quarter ending on September 30, 2013 no change occurred in the internal control of the company over financial reporting, which materially affected or is reasonably expected to materially affect the Company's internal control on financial reporting.

For purposes of this paragraph, "the covered period" is the reported financial quarter.

Management's statements as to the adequacy of the financial data presented in the company's financial statements and the existence and effectiveness of internal controls relating to the financial statements are attached hereunder.

The Board of Directors wishes to thank the company's employees and management for their contribution to its business achievements.

Ralph Mucerino  
Chairman of the Board

Shai Feldman  
CEO

November 19, 2013



## **Declaration**

I, Shay Feldman hereby declare that:

1. I reviewed the interim report of AIG Israel Insurance Company Ltd. (hereafter – "the insurance company") for the quarter ended September 30, 2013 (hereafter – "the report").
2. Based on my knowledge, the report does not include any misstatement of a material fact or omit to disclose a material fact the presentation of which in the report is necessary for the purpose of ensuring that under the circumstances in which those presentations are included, they will not be misleading regarding the period covered by the report.
3. Based on my knowledge, the quarterly financial statements and other financial information included in the report reflect fairly, in all material respects, the financial position, results of operations, changes in shareholders' equity and cash flows of the insurance company for the date and periods covered by the report.
4. The Company's other certifying officers and I are responsible for establishing and maintaining controls and procedures relating to disclosure<sup>1</sup> and internal controls over financial reporting of the insurance company; and -
  - (a) Accordingly, we have designed such disclosure controls and procedures, or have had such disclosure controls and procedures established under our charge, designed to ensure that material information relating to the insurance company is made known to us by others in the insurance company particularly during the period in which the reports were prepared;
  - (b) We designed internal controls over financial reporting, or supervised the design of such internal controls designed to provide a reasonable assurance regarding the reliability of the financial reporting and assurance to the effect that the financial statements are drawn up in accordance with International Financial Reporting Standards (IFRS) and in accordance with the directives of the Supervisor of Insurance.
  - (c) We assessed the effectiveness of controls and procedures regarding the disclosure of the insurance company and presented our conclusions regarding the effectiveness of disclosure controls and procedures as of the end of the period covered in the report, based on our estimate; and
  - (d) We disclosed in the report any change in the insurance company's internal controls over financial reporting which took place in this quarter and had a material effect or is

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<sup>1</sup> As defined in the provisions of the Institutional Bodies Circular regarding internal controls over financial reporting – declarations, reports and disclosures.



expected to have a material effect on the insurance company's internal controls over financial reporting; and

5. The insurance company's other certifying officers and I have disclosed to the insurance company's auditors, the insurance company's board of directors and its audit committee, based on our most recent evaluation of internal controls over financial reporting, the following:
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the insurance company's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether material or not, that involves management or other employees who have a significant role in the insurance company's internal controls over financial reporting.

There is nothing in the aforesaid to derogate from my responsibility or the responsibility of any other person, pursuant to any law.

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Shay Feldman - CEO

November 19, 2013



## **Declaration**

I, David Rothstein hereby declare that:

1. I reviewed the interim report of AIG Israel Insurance Company Ltd. (hereafter – "the insurance company") for the quarter ended September 30, 2013 (hereafter – "the report").
2. Based on my knowledge, the report does not include any misstatement of a material fact or omit to disclose a material fact the presentation of which in the report is necessary for the purpose of ensuring that under the circumstances in which those presentations are included, they will not be misleading regarding the period covered by the report.
3. Based on my knowledge, the quarterly financial statements and other financial information included in the report reflect fairly, in all material respects, the financial position, results of operations, changes in shareholders' equity and cash flows of the insurance company for the date and periods covered by the report.
4. The Company's other certifying officers and I are responsible for establishing and maintaining controls and procedures relating to disclosure<sup>1</sup> and internal controls over financial reporting of the insurance company; and -
  - (a) Accordingly, we have designed such disclosure controls and procedures, or have had such disclosure controls and procedures established under our charge, designed to ensure that material information relating to the insurance company is made known to us by others in the insurance company particularly during the period in which the reports were prepared;
  - (b) We designed internal controls over financial reporting, or supervised the design of such internal controls designed to provide a reasonable assurance regarding the reliability of the financial reporting and assurance to the effect that the financial statements are drawn up in accordance with International Financial Reporting Standards (IFRS) and in accordance with the directives of the Supervisor of Insurance.
  - (c) We assessed the effectiveness of controls and procedures regarding the disclosure of the insurance company and presented our conclusions regarding the effectiveness of disclosure controls and procedures as of the end of the period covered in the report, based on our estimate; and
  - (d) We disclosed in the report any change in the insurance company's internal controls over financial reporting which took place in this quarter and had a material effect or is

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<sup>1</sup> As defined in the provisions of the Institutional Bodies Circular regarding internal controls over financial reporting – declarations, reports and disclosures.





expected to have a material effect on the insurance company's internal controls over financial reporting; and

5. The insurance company's other certifying officers and I have disclosed to the insurance company's auditors, the insurance company's board of directors and its audit committee, based on our most recent evaluation of internal controls over financial reporting, the following:
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the insurance company's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether material or not, that involves management or other employees who have a significant role in the insurance company's internal controls over financial reporting.

There is nothing in the aforesaid to derogate from my responsibility or the responsibility of any other person, pursuant to any law.

---

David Rothstein - CFO

November 19, 2013



## **Directors and Management's Report Regarding Internal Controls over Financial Reporting**

Management, with the supervision of the Board of Directors of AIG Insurance Company Ltd. (hereafter the "the Insurance Company") are responsible for setting and maintaining effective internal control over financial reporting. The internal controls system of the insurance company was planned in order to provide reasonable assurance to management and Board of Directors to the effect that the financial statements are prepared and presented fairly in accordance with International Financial Reporting Standards and in accordance with the directives of the Supervisor of Insurance.

All internal controls have inherent limitations regardless of the quality of planning. Therefore, even if it is determined that these controls are effective they can only provide a reasonable measure of assurance regarding the preparation and presentation of financial statements.

Management, supervised by the Board of Directors, maintains a comprehensive control system designed to ensure that transactions are carried out in accordance with management's authorization, assets are protected, and accounting records are reliable. In addition, management with the Board of Directors' supervision takes measures in order to ensure that the information and communications channels are effective and monitor implementation, including implementation of the internal control procedures.

The Insurance Company's management with the supervision of its Board of Directors evaluates the effectiveness of the internal control of the Insurance Company over financial reporting as at September 30, 2013, based on criteria set in the internal control model of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation management believes that as at September 30, 2013 the internal control of the Insurance Company over financial reporting is effective.

Chairman of the Board: Mr. Ralph Mucerino \_\_\_\_\_

CEO: Mr. Shay Feldman \_\_\_\_\_

CFO: Mr. David Rothstein \_\_\_\_\_

Date of approval of financial statements: November 19, 2013

**AIG ISRAEL INSURANCE CO. LTD.**

FINANCIAL INFORMATION FOR INTERIM PERIOD  
(Unaudited)

SEPTEMBER 30, 2013

**AIG ISRAEL INSURANCE CO. LTD.**  
FINANCIAL INFORMATION FOR INTERIM PERIOD  
(Unaudited)

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## **Accountants' review report to shareholders of AIG Israel Insurance Co. Ltd.**

### **Introduction**

We have reviewed the attached financial information of AIG Israel Insurance Co. Ltd ("the Company"), which information is comprised of the condensed statement of financial position As of September 30, 2013 and the condensed statements of comprehensive income, changes in equity and cash flows for the nine and three-months ended on that date. The Board of Directors and management are responsible for the preparation and presentation of the financial information for this interim period in accordance with the provisions of International Accounting Standard No. 34, 'Interim Financial Reporting' (hereafter "IAS 34"), and they are also responsible for the preparation of the financial information for this interim period in accordance with the disclosure requirements of the Supervision of Financial Services (Insurance) Law, 1981 and the regulations promulgated thereunder. Our responsibility is to express a conclusion with respect to the financial information for this interim period, which conclusion is based on our review.

### **Scope of review**

Our review was conducted in accordance with the provisions of Review Standard No. 1 of the Institute of Certified Public Accountants in Israel, 'Review of financial information for interim period undertaken by accountant of entity.' A review of financial information for an interim period consists of the making of enquiries, in particular, of those officials responsible for financial and accounting matters, and of the application of analytical and other review procedures. A review is substantially lesser in scope than an audit conducted in accordance with auditing standards generally accepted in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### **Conclusion**

On the basis of our review, no matter has come to our attention that causes us to believe that the above financial information is not prepared, in all material respects, in accordance with IAS 34.

In addition, on the basis of our review, no matter has come to our attention that causes us to believe that the presentation of the above financial information does not, in all material respects, accord with the disclosure provisions of the Supervision of Financial Services (Insurance) Law, 1981 and the regulations promulgated thereunder.

Tel-Aviv, Israel  
November 19, 2013

Kesselman & Kesselman  
Certified Public Accountants (Isr.)  
A member firm of PricewaterhouseCoopers International Limited

**AIG ISRAEL INSURANCE CO. LTD.**

**CONDENSED STATEMENT OF FINANCIAL POSITION**

AS OF SEPTEMBER 30, 2013

	<b>September 30</b>		<b>December 31,</b>
	<b>2013</b>	<b>2012</b>	<b>2012</b>
	<b>(Unaudited)</b>		<b>(Audited)</b>
	<b>NIS in thousands</b>		
<b>A s s e t s</b>			
<b>INTANGIBLE ASSETS</b>	13,325	11,403	15,732
<b>DEFERRED ACQUISITION EXPENSES</b>	139,653	133,341	130,191
<b>FIXED ASSETS</b>	16,124	16,315	16,885
<b>REINSURANCE ASSETS</b>	664,144	585,418	585,532
<b>PREMIUMS COLLECTIBLE</b>	186,840	188,318	174,155
<b>CURRENT TAX ASSETS</b>	38,509	-	-
<b>OTHER RECEIVABLES</b>	35,253	30,772	33,668
	<u>1,093,848</u>	<u>965,567</u>	<u>956,163</u>
<b>FINANCIAL INVESTMENTS:</b>			
Marketable debt instruments	1,049,229	1,022,360	1,099,646
Non-marketable debt instruments	106,566	70,216	77,925
Marketable shares	74,905	62,529	68,284
Index linked certificates	86,158	101,243	93,487
T o t a l financial investments	<u>1,316,858</u>	<u>1,256,348</u>	<u>1,339,342</u>
<b>CASH AND CASH EQUIVALENTS</b>	137,088	87,895	93,540
<b>TOTAL ASSETS</b>	<u>2,547,794</u>	<u>2,309,810</u>	<u>2,389,045</u>

**Ralph Mucerino**  
Chairman of the Board

**Shay Feldman**  
C.E.O

**David Rothstein**  
C.F.O

Date of approval of financial information for interim period by Board of Directors of Company:  
November 19, 2013

**AIG ISRAEL INSURANCE CO. LTD.**

CONDENSED STATEMENT OF FINANCIAL POSITION

AS OF SEPTEMBER 30, 2013

	<u>September 30</u>		<u>December 31,</u>
	<u>2013</u>	<u>2012</u>	<u>2012</u>
	<u>(Unaudited)</u>		<u>(Audited)</u>
	<u>NIS in thousands</u>		
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY:</b>			
Share capital	6	6	6
Share premium	250,601	250,601	250,601
Other capital reserve	11,084	11,084	11,084
Retained earning	372,559	271,014	315,413
<b>TOTAL EQUITY ATTRIBUTABLE TO COMPANY SHAREHOLDERS</b>	<u>634,250</u>	<u>532,705</u>	<u>577,104</u>
<b>LIABILITIES:</b>			
Liabilities in respect of insurance contracts and without-profits investment contracts	1,570,209	1,431,516	1,409,340
Liabilities in respect of deferred taxes, net	11,376	7,632	8,877
Liabilities with respect to employee rights upon retirement, net	2,387	1,530	2,326
Liabilities towards reinsurers	262,352	242,069	254,484
Liability with respect to current taxes	-	31,899	48,549
Payables	67,220	62,459	88,365
<b>TOTAL LIABILITIES</b>	<u>1,913,544</u>	<u>1,777,105</u>	<u>1,811,941</u>
<b>TOTAL EQUITY AND LIABILITIES</b>	<u>2,547,794</u>	<u>2,309,810</u>	<u>2,389,045</u>

The accompanying notes are an integral part of these condensed financial statements.

**AIG ISRAEL INSURANCE CO. LTD.**

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME  
FOR THE NINE AND THREE MONTHS ENDED SEPTEMBER 30, 2013

	Nine months ended September 30		Three months ended September 30		Year ended December 31,
	2013	2012	2013	2012	2012
	(Unaudited)				(Audited)
	NIS in thousands				
Gross earned premiums	656,675	611,022	224,417	210,115	827,158
Premiums earned by reinsurers	(131,242)	(136,983)	(42,474)	(47,217)	(185,701)
Premiums earned on non-ceded business	525,433	474,039	181,943	162,898	641,457
Investment income, net and financing income	55,369	* 67,357	26,151	* 40,314	97,239
Commission income	32,797	38,025	10,209	13,441	47,628
<b>TOTAL INCOME</b>	<b>613,599</b>	<b>579,421</b>	<b>218,303</b>	<b>216,653</b>	<b>786,324</b>
Payments and movement in liabilities					
with respect to insurance contracts, gross	(450,436)	(307,136)	(132,564)	(134,040)	(403,690)
Share of reinsurers in increase of insurance liabilities					
And payments with respect to insurance contracts	151,708	116,943	29,121	45,166	152,790
Payments and movement in liabilities with respect to insurance contracts, retained amount	(298,728)	** (190,193)	(103,443)	(88,874)	** (250,900)
Commission, marketing expenses and other acquisition expenses	(107,905)	(110,603)	(36,749)	(34,187)	(147,372)
General and administrative expenses	(114,707)	(103,884)	(36,921)	(34,843)	(142,078)
Financing expenses, net	(1,167)	* (11)	179	* (706)	(2,206)
<b>TOTAL EXPENSES</b>	<b>(522,507)</b>	<b>(404,691)</b>	<b>(176,934)</b>	<b>(158,610)</b>	<b>(542,556)</b>
<b>PROFIT BEFORE TAXES ON INCOME</b>	<b>91,092</b>	<b>174,730</b>	<b>41,369</b>	<b>58,043</b>	<b>243,768</b>
Taxes on income	(33,946)	(61,792)	(15,730)	(20,973)	(86,431)
<b>PROFIT FOR PERIOD AND TOTAL COMPREHENSIVE INCOME FOR PERIOD</b>	<b>57,146</b>	<b>112,938</b>	<b>25,639</b>	<b>37,070</b>	<b>157,337</b>
<b>BASIC EARNINGS PER SHARE</b>	<b>10.15</b>	<b>20.06</b>	<b>4.55</b>	<b>6.58</b>	<b>27.95</b>
Number of shares used in computation of basic earnings per share	5,630	5,630	5,630	5,630	5,630

\* Reclassified.

\*\* As to change to "accrual" period in respect of the compulsory motor vehicle business, see note 3b.

**The accompanying notes are an integral part of these condensed financial statements.**



**AIG ISRAEL INSURANCE CO. LTD.**  
CONDENSED STATEMENTS OF CHANGES IN EQUITY  
FOR THE NINE AND THREE MONTHS ENDED SEPTEMBER 30, 2013

	Share capital	Share Premium	Other capital reserves	Retained earnings	Total
	NIS in thousands				
<b>BALANCE AS OF JANUARY 1, 2013</b> (audited)	6	250,601	11,084	315,413	577,104
<b>CHANGES DURING THE NINE MONTHS ENDED SEPTEMBER 30, 2013</b> (unaudited) - total net income and comprehensive income for nine months ended September 30, 2013				57,146	57,146
<b>BALANCE AS OF SEPTEMBER 30, 2013</b> (unaudited)	<u>6</u>	<u>250,601</u>	<u>11,084</u>	<u>372,559</u>	<u>634,250</u>
<b>BALANCE AS OF JANUARY 1, 2012</b> (audited)	6	250,601	11,084	158,076	419,767
<b>CHANGES DURING THE NINE MONTHS ENDED SEPTEMBER 30, 2012</b> (unaudited) - total net income and comprehensive income for nine months ended September 30, 2012				112,938	112,938
<b>BALANCE AS OF SEPTEMBER 30, 2012</b> (unaudited)	<u>6</u>	<u>250,601</u>	<u>11,084</u>	<u>271,014</u>	<u>532,705</u>
<b>BALANCE AS OF JULY 1, 2013</b> (unaudited)	6	250,601	11,084	346,920	608,611
<b>CHANGES DURING THE THREE MONTHS ENDED SEPTEMBER 30, 2013</b> (unaudited) - total net income and comprehensive income for three months ended September 30, 2013				25,639	25,639
<b>BALANCE AS OF SEPTEMBER 30, 2013</b> (unaudited)	<u>6</u>	<u>250,601</u>	<u>11,084</u>	<u>372,559</u>	<u>634,250</u>
<b>BALANCE AS OF JULY 1, 2012</b> (unaudited)	6	250,601	11,084	233,944	495,635
<b>CHANGES DURING THE THREE MONTHS ENDED SEPTEMBER 30, 2012</b> (unaudited) - total net income and comprehensive income for three months ended September 30, 2012				37,070	37,070
<b>BALANCE AS OF SEPTEMBER 30, 2012</b> (unaudited)	<u>6</u>	<u>250,601</u>	<u>11,084</u>	<u>271,014</u>	<u>532,705</u>
<b>BALANCE AS OF JANUARY 1, 2012</b> (audited)	6	250,601	11,084	158,076	419,767
<b>CHANGES DURING THE YEAR 2012</b> (audited) total net income and comprehensive income for year ended December 31, 2012				157,337	157,337
<b>BALANCE AS OF DECEMBER 31, 2012</b> (audited)	<u>6</u>	<u>250,601</u>	<u>11,084</u>	<u>315,413</u>	<u>577,104</u>

The accompanying notes are an integral part of these condensed financial statements.

**AIG ISRAEL INSURANCE CO. LTD.**

CONDENSED STATEMENTS OF CASH FLOWS  
FOR THE NINE AND THREE MONTHS ENDED SEPTEMBER 30, 2013

	Nine months ended September 30		Three months ended September 30		Year ended December 31,
	2013	2012	2013	2012	2012
	(Unaudited)				(Audited)
	NIS in thousands				
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>					
Net cash used in operating activities (Appendix A)	131,694	(23,933)	154,728	(3,379)	(15,557)
Interest received	33,891	30,685	9,890	7,439	40,660
Dividend received	1,899	2,373	731	373	3,680
Income taxes paid	(119,504)	(18,546)	(79,273)	(13,307)	(25,021)
Net cash provided by (used in) operating activities	<u>47,980</u>	<u>(9,421)</u>	<u>86,076</u>	<u>(8,874)</u>	<u>3,762</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Changes in asset cover for equity and non-insurance liabilities:					
Acquisition of fixed assets	(2,828)	(1,087)	(415)	(309)	(2,916)
Acquisition of Intangible assets	(1,824)	(5,181)	(760)	(1,755)	(11,202)
Net cash used in investing activities	<u>(4,652)</u>	<u>(6,268)</u>	<u>(1,175)</u>	<u>(2,064)</u>	<u>(14,118)</u>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	43,328	(15,689)	84,901	(10,938)	(10,356)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	93,540	103,562	52,013	98,499	103,562
<b>INFLUENCE OF FLUCTUATIONS IN EXCHANGE RATE ON CASH AND CASH EQUIVALENTS</b>	<u>220</u>	<u>22</u>	<u>174</u>	<u>334</u>	<u>334</u>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<u>137,088</u>	<u>87,895</u>	<u>137,088</u>	<u>87,895</u>	<u>93,540</u>

**AIG ISRAEL INSURANCE CO. LTD.**

CONDENSED STATEMENTS OF CASH FLOWS  
FOR THE NINE AND THREE MONTHS ENDED SEPTEMBER 30, 2013

	Nine months ended September 30		Three months ended September 30		Year ended December 31,
	2013	2012	2013	2012	2012
	(Unaudited)				(Audited)
	NIS in thousands				
<b>APPENDIX A - CASH FLOWS FROM OPERATING ACTIVITIES -</b>					
Profit before taxes on income	91,092	174,730	41,369	58,043	243,768
Adjustments for- Income and expenses not involving cash flows:					
Increase (decrease) in insurance contracts not depending on yield	82,255	(13,397)	37,101	23,659	(35,688)
Increase in deferred acquisition expenses	(9,462)	(14,683)	(3,080)	(8,027)	(11,533)
Increase (decrease) in liabilities with respect to employee rights upon retirement, net	61	(517)	(38)	(112)	279
Depreciation of fixed assets	3,589	3,515	936	1,152	4,775
Depreciation of intangible asset	4,231	3,761	1,221	1,192	5,453
Losses (gains), net on realization of financial investments:					
Marketable debt instruments	(4,894)	(26,836)	(7,945)	(21,263)	(40,324)
Non-marketable debt instruments	(2,047)	(1,422)	(1,578)	(406)	(1,072)
Marketable shares	(5,769)	1,684	(3,521)	(5,024)	(2,823)
Index linked certificates	(7,708)	(7,724)	(2,777)	(5,912)	(9,341)
Influence of fluctuation in exchange rate on cash and cash equivalents	(220)	(22)	(174)	(334)	(334)
	<u>151,128</u>	<u>119,089</u>	<u>61,514</u>	<u>42,968</u>	<u>153,160</u>
Changes in operating assets and liabilities:					
Liabilities towards reinsurers	7,868	30,659	11,019	853	43,074
Investments in financial assets, net	42,902	(96,390)	98,839	(15,465)	(160,121)
Premiums collectible	(12,685)	(32,105)	(6,583)	(16,585)	(17,942)
Receivables	(1,584)	84	1,738	1,132	(2,813)
Payables	(21,145)	(12,212)	(1,178)	(8,470)	13,425
Liability with respect to current taxes	1,000	-	-	-	-
	<u>16,356</u>	<u>(109,964)</u>	<u>103,835</u>	<u>(38,535)</u>	<u>(124,377)</u>
Adjustments with respect to interest and dividend received:					
Interest received	(33,891)	(30,685)	(9,890)	(7,439)	(40,660)
Dividend received	(1,899)	(2,373)	(731)	(373)	(3,680)
Net cash (used in) operating activities	<u>131,694</u>	<u>(23,933)</u>	<u>154,728</u>	<u>(3,379)</u>	<u>(15,557)</u>

Cash flows from operating activities include net acquisitions and disposals of pension investments arising from insurance contract activity.

**The accompanying notes are an integral part of these condensed financial statements.**

**AIG ISRAEL INSURANCE CO. LTD.**  
NOTES TO CONDENSED FINANCIAL STATEMENTS

**NOTE 1 - GENERAL**

The company was incorporated in Israel on March 27, 1996 as a private company in which the shareholders have limited responsibility. The company commenced its insurance operations in May 1997. The company does not hold any subsidiaries or related companies.

In January 2013 the Global AIG and Aurec Gold Investments Ltd. ("Aurec") entered into an agreement for the purchase of all of Aurec's holdings in the Company, subject to fulfillment of certain suspending conditions set out in the purchase agreement. On May 13, 2013 the transfer of shares to Global AIG was completed after the abovementioned suspending conditions were met. The ultimate parent company of the company is American International Group Inc. (hereafter - (hereafter – AIG global Corporation" or "AIG"), which holds 100% of the ordinary shares of the company and 100% of the voting shares of the company.

Until the completion of the transfer of shares, AIG Global Corporation held 50% of the ordinary shares of the company and 51% of the voting shares of the company and Aurec Gold Investments Ltd. held 50% of the ordinary shares of the company and 49% of the voting shares of the company.

The registered address of the company's office is 25 Hasivim St. Petah-Tikva.

**DEFINITIONS:**

- 1) Supervisor- supervisor of insurance (Commissioner of the Capital Market, Insurance and Savings at the Israel Ministry of Finance).
- 2) CPI - The consumer price index published by the Israeli Central Bureau of Statistics.
- 3) Known CPI - The CPI known at the end of the month.
- 4) Related parties - as defined in IAS 24 "Related Party Disclosures".
- 5) Life insurance fund - Actuarial fund calculated in accordance with the principles generally accepted for this purpose in Israel.
- 6) Unexpired risks fund - Funds calculated in accordance with the Regulations for Calculation of General Insurance Funds.
- 7) Accrual\* - The accumulated surplus of income over expenses (comprising premiums, acquisition costs, claims and part of the income from investments, all net of the reinsurers' share for the relevant underwriting year), as calculated in accordance with the Regulations for Calculation of General Insurance Funds, less a provision for unexpired risks and less outstanding claims.

As to change of accrual period - see note 3.

- 8) Outstanding claims - Known outstanding claims, with the addition of the expected growth of claims that have been incurred but not enough reported (I.B.N.E.R.) plus claims that have been Incurred but not reported (I.B.N.R).

\* The balance sheet includes the accrual under the "liabilities in respect of non-yield dependent insurance contract and investments".

**AIG ISRAEL INSURANCE CO. LTD.**

NOTES TO CONDENSED FINANCIAL STATEMENTS (Continued)

**NOTE 1 - GENERAL** (continued):

- 9) Details of account regulations- Supervision of Insurance Businesses (Details of account) Regulations, 1998.
- 10) Investment Method Regulations - The Supervision of Insurance Business Regulations (Investment Methods in Capital, Reserves and Liabilities of the Insurer), 2001 and amendments as amended.
- 11) Shareholders' Capital Regulations - The Supervision of Insurance Business Regulations (minimum shareholders' equity required from an insurer), 1998 and amendments as amended.
- 12) Account Segregation Regulations in Life Insurance - The Supervision of Insurance Regulations (Method of Segregation of Accounts and Assets of Insurer in Life Insurance), 1984.
- 13) Regulations for Calculation of General Insurance Funds - The Supervision of Insurance Businesses Regulations (Method of Calculation of Provisions for Future Claims in General Insurance) 1984, and amendments as amended.
- 14) Exposure to reinsurers - debit balances with the company's reinsurers, including the reinsurer's share in the company's outstanding claims and unexpired risks fund, all being net of the reinsurer's deposits with the company and the amount of documentary credits granted against the debt of the reinsurer.
- 15) Insurance contract - A contract under which one party (the insurer) takes a significant insurance risk from another party (policy holder), by agreement to indemnify the policy holder if an uncertain a defined future event (insurance event) negatively affects the policy holder.
- 16) Liability for insurance contracts - Insurance reserves and outstanding claims in general insurance.
- 17) Premium - Premium including fees.
- 18) The expression, 'premiums earned,' refers to premiums that relate to the period under review.

**NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS:**

- a. The condensed financial information of the Company as of September 30 and for the 9- and 3-month period then ended (hereinafter - "the interim financial information") was prepared in accordance with IAS 34 "Interim Financial Reporting", and it complies with disclosure guidance in the Financial Services Supervision Law (Insurance), 1981 ("the Supervision Law") and the regulations enacted thereafter. Note that the interim financial information has to be read together with the Company's annual financial statements as of December 31, 2012 and the year then ended and the accompanying notes, which have been prepared in accordance with International Financial Reporting Standards (IFRS).

The financial information for the interim period has been subject to review only and has not been audited.



**AIG ISRAEL INSURANCE CO. LTD.**

NOTES TO CONDENSED FINANCIAL STATEMENTS (Continued)

**NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS (Continued):**

- b. Assessment- The preparation of interim financial statements requires management to exercise its judgment and also requires use of accounting estimates and assumptions that affect the application of the Company's accounting policy and the reported amounts of assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Significant judgments exercised by management in preparation of these condensed interim financial statements as well as the uncertainty involved in the key sources of those estimates were identical to the ones used in the Company's annual financial statements for the year ended December 31, 2012.

**NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES:**

- a. The significant accounting policies and the computational methods applied in the preparation of the financial information for the interim period are consistent with the policies and methods applied in the preparation of the annual financial statements of the company, except for the following matters:

1) Taxes on income for the reported interim period are accounted for on the basis on management's best estimate of the average tax rate applicable to the projected annual profits.

2) New accounting standards applied for the first time:

- a. New IFRS and amendments to existing standards that came into effect and are mandatory for reporting periods commencing on January 1, 2013

IAS 19 – "Employee Benefits" (Revised 2011)

The amendment to IAS 19 makes changes to the recognition and measurement of defined benefit plans and termination benefit and to the disclosures for all employee benefits discussed in IAS 19. Set forth below is a summary of the key changes:

- Actuarial gains and losses are renamed "Remeasurements of the net defined benefit liability (asset)" (hereinafter - remeasurements), which includes in addition to actuarial gains and losses certain elements as defined in IAS 19 Amendment. Remeasurements are recognized immediately in other comprehensive income. This eliminates the option to recognize actuarial gains or losses through profit or loss and the option to use the "corridor" approach.
- Past service costs will be recognized immediately in the period of a plan amendment; unvested benefits will no longer be spread over a future service period.

**AIG ISRAEL INSURANCE CO. LTD.**

NOTES TO CONDENSED FINANCIAL STATEMENTS (Continued)

**NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES** (continued):

- Annual expense for a funded benefit plan will include net interest expense or income, calculated by applying the discount rate to the net defined benefit asset or liability. This will replace the "finance charge" and "expected return on plan assets" currently applied under IAS 19.
- The distinction between short term and long term benefits for measurement purposes shall be based on when payment is expected, not when payment can be demanded.
- Any benefit that has a future service obligation is not a termination benefit. A liability for a termination benefit is recognized when the entity can no longer withdraw the offer of the termination benefit or recognizes any related restructuring costs.

The Company applied IAS 19 (Revised) for the first time commencing January 1, 2013, the standard is applied retrospectively to all reported periods.

Until the first time application of IAS 19 (Revised), the Company's accounting policy was to credit or charge to the statement of income in the period in which they arose, those actuarial gains or losses which stem from changes to actuarial valuations and from the difference between previous assumptions and actual results.

Upon the first time application of IAS 19 (Revised), "remeasurements" as computed under the new provisions, are charged to other comprehensive income.

The first-time application of the standard had no impact on the nine and three months ended September 30, 2013. In connection with comparative information, there is no impact on the financial information.

As specified in the annual 2012 financial statements of the Company, additional amendments to IFRS came into effect and are mandatory for reporting periods starting on January 1, 2013; however, the first time application of those amendments does not have a material effect on the interim financial information of the Company (including comparative figures).

- b.** IAS 1 (Amendment) "Financial Statements Presentation". IAS 1 Amendment changes the disclosure of items presented in other comprehensive income (OCI) in the statement of comprehensive income. Key points in IAS 1 Amendment are:

- Items presented in OCI should be separated into two groups, based on whether or not they may be recycled to profit or loss in the future. Accordingly, items that will not be recycled will be presented separately from items that may be recycled in the future.

Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately.



**AIG ISRAEL INSURANCE CO. LTD.**

NOTES TO CONDENSED FINANCIAL STATEMENTS (Continued)

**NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES** (continued):

- The title used by IAS 1 for the statement of comprehensive income has changed to "statement of profit or loss and other comprehensive income". However IAS 1 still permits entities to use other titles.

The Company adopted IAS 1 for annual period beginning on January 1, 2013, retrospectively to all reported periods.

- c. As detailed in the 2012 annual financial statements of the Company, additional amendment to IFRSs are issued, became effective and are mandatory for accounting periods beginning on January 1, 2013, but their first-time adoption has no material impact on the interim financial information of the Company (including comparative information).
- 3) New IFRS and amendments to existing standards, which have not yet become effective and have not been early adopted by the Company.

In its annual 2012 financial statements, the Company specified new IFRS and additional amendments to existing IFRS, which have not yet become effective and have not been early adopted by the Company.

- b. According to an approval by the Supervisor, the company has maintain prior to 2012 in the compulsory vehicle business an accrual of five years compared to three years, as is the practice in the industry. Beginning in 2012, the company maintains a three-year accrual, according to practice in the industry. For nine-month period ended September 30, 2012 and the year ended December 31, 2012, this change has resulted in a decrease in the payments item and the liabilities in respect of insurance contracts (gross); this change has also resulted in a NIS 79.3 million increase in income before taxes on income and a NIS 51.3 increase in total comprehensive income and net income for the period.

**NOTE 4 - SEGMENT INFORMATION**

The Company's chief operational decision-maker reviews the Company's internal reports for the purposes of evaluating performance and deciding upon the allocation of resources. Management has established operating segments on the basis of these reports. Segment performance is assessed by measuring pre-tax profit and the profit before investment income and tax and by considering particular ratios, such as the claims ratio and the expenses ratio.

The Company operates in the general insurance sector, the health insurance sector and the life assurance sector, as follows:

**a. Life assurance sector**

The life assurance sector provides cover for life assurance risk only.

**AIG ISRAEL INSURANCE CO. LTD.**  
NOTES TO CONDENSED FINANCIAL STATEMENTS (Continued)

**NOTE 4 - SEGMENT INFORMATION** (continued):

**b. Health insurance sector**

All the company's health insurance operations are concentrated within this sector. The sector provides personal accident cover, severe illness cover and foreign travel cover.

**c. General insurance sector**

The general insurance sector encompasses the property and liability lines. In accordance with the directives of the Supervisor, the sector is divided into the following lines, viz. the compulsory motor vehicle line, the motor vehicle property line, the personal property insurance line, other property lines, other liability lines and the professional liability line.

**d. Compulsory motor vehicle line**

- e.** The compulsory motor vehicle line focuses on the provision of cover, the purchase of which, by the owner or driver of a vehicle, is compulsory by law. This insurance provides cover for bodily injury occasioned to the driver of the vehicle, any passengers therein or pedestrians as a result of the use of an engine vehicle.

**f. Motor vehicle property line**

The motor vehicle property branch focuses on the provision of cover for property damage occasioned to the motor vehicle of the insured and for property damage that the motor vehicle of the insured causes to a third party.

**g. Flats insurance sector**

The flats insurance sector focuses in providing coverage for damages caused to flats and includes coverage in respect of damages caused by earth quake.

**h. Professional liability line**

The professional liability line provides cover to practitioners of the various liberal professions for any claims that may be made against them in relation to injury occasioned to a third party as a result of a mistake or professional negligence. Insurance coverage to directors and office holders in respect of an unlawful act or oversight carried out by the directors and office holders in their professional capacity and insurance coverage in respect of embezzlement damages.

**i. Other property lines**

Other property lines provide cover with respect to those property lines which are not connected with the motor vehicle or liability branches. Cover is principally provided with respect to property insurance, subcontractors and mechanical breakdown insurance.

**j. Other liability lines**

Liability lines provide cover for the liability of the insured with respect to injury that the insured causes to a third party. Amongst the liabilities covered by these lines are third party liability, employer's liability and product warranty.

**AIG ISRAEL INSURANCE CO. LTD.**  
NOTES TO CONDENSED FINANCIAL STATEMENTS (Continued)

**NOTE 4 - SEGMENT INFORMATION** (continued):

	<b>For the 9-month period ended September 30, 2013 (unaudited)</b>				
	<b>Life assurance</b>	<b>Health insurance</b>	<b>General insurance</b>	<b>Not apportionable to operating segments</b>	<b>Total</b>
	<b>NIS in thousands</b>				
Gross earned premiums	75,435	152,410	428,830		656,675
Premiums earned by reinsurers	(16,302)	(10,656)	(104,284)		(131,242)
Premiums earned by non-ceded business	59,133	141,754	324,546		525,433
Investment income, net and financing income	83	4,933	27,674	22,679	55,369
Commission income	2,441	3,304	27,052		32,797
Total income	61,657	149,991	379,272	22,679	613,599
Change in insurance liabilities and payments with respect to insurance contracts (gross)	(23,472)	(66,280)	(360,684)		(450,436)
Share of reinsurers in increase of insurance liabilities and payments with respect to insurance contracts	6,296	6,404	139,008		151,708
Payments and Change in insurance liabilities with respect to insurance contracts relating to non-ceded business	(17,176)	(59,876)	(221,676)		(298,728)
Commission and other acquisition expenses	(17,047)	(29,902)	(60,956)		(107,905)
General and administrative expenses	(22,641)	(30,503)	(61,563)		(114,707)
Financing expenses, net	-	(80)	(1,820)	733	(1,167)
Profit before taxes on income	4,793	29,630	33,257	23,412	91,092
Gross liabilities with respect to insurance contracts as of September 30, 2013	24,319	134,955	1,410,935		1,570,209

**AIG ISRAEL INSURANCE CO. LTD.**  
NOTES TO CONDENSED FINANCIAL STATEMENTS (Continued)

**NOTE 4 - SEGMENT INFORMATION** (continued):

	<b>For the 9-month period ended September 30, 2012 (unaudited)</b>				
	<b>Life assurance</b>	<b>Health insurance</b>	<b>General insurance</b>	<b>Not apportionable to operating segments</b>	<b>Total</b>
	<b>NIS in thousands</b>				
Gross earned premiums	65,627	147,910	397,485		611,022
Premiums earned by reinsurers	(15,658)	(17,417)	(103,908)		(136,983)
Premiums earned by non-ceded business	49,969	130,493	293,577		474,039
Investment income (loss), net and financing income	(380)	* 7,040	* 41,588	* 19,109	* 67,357
Commission income	3,071	5,643	29,311		38,025
Total income	52,660	143,176	364,476	19,109	579,421
Change in insurance liabilities and payments with respect to insurance contracts (gross)	(24,586)	(63,969)	(218,581)		(307,136)
Share of reinsurers in increase of insurance liabilities and payments with respect to insurance contracts	7,926	4,467	104,550		116,943
Payments and Change in insurance liabilities with respect to insurance contracts relating to non-ceded business.	(16,660)	(59,502)	** (114,031)		(190,193)
Commission and other acquisition expenses	(15,944)	(36,439)	(58,220)		(110,603)
General and administrative expenses	(19,993)	(24,495)	(59,396)		(103,884)
Financing income (expenses), net	-	* (139)	* (2,527)	* 2,655	* (11)
Profit before taxes on income	63	22,601	130,302	21,764	174,730
Gross liabilities with respect to insurance contracts as of September 30, 2012	26,350	129,952	1,275,214		1,431,516

\* Reclassified

\*\* As to change to accrual period in respect of the compulsory motor vehicle business, see note 3b.

**AIG ISRAEL INSURANCE CO. LTD.**  
NOTES TO CONDENSED FINANCIAL STATEMENTS (Continued)

**NOTE 4 - SEGMENT INFORMATION** (continued):

	<b>For the 3-month period ended September 30, 2013 (unaudited)</b>				
	<b>Life</b>	<b>Health</b>	<b>General</b>	<b>Not</b>	<b>Total</b>
	<b>assurance</b>	<b>insurance</b>	<b>insurance</b>	<b>apportionable</b>	
	<b>NIS in thousands</b>				<b>to operating</b>
				<b>segments</b>	
Gross earned premiums	26,070	53,291	145,056		224,417
Premiums earned by reinsurers	(5,471)	(3,591)	(33,412)		(42,474)
Premiums earned by non-ceded business	20,599	49,700	111,644		181,943
Investment income, net and financing income	22	2,419	12,622	11,088	26,151
Commission income	799	1,108	8,302		10,209
<b>Total income</b>	<b>21,420</b>	<b>53,227</b>	<b>132,568</b>	<b>11,088</b>	<b>218,303</b>
Change in insurance liabilities and payments with respect to insurance contracts (gross)	(7,240)	(25,558)	(99,766)		(132,564)
Share of reinsurers in increase of insurance liabilities and payments with respect to insurance contracts	1,935	1,815	25,371		29,121
Payments and Change in insurance liabilities with respect to insurance contracts relating to non-ceded business.	(5,305)	(23,743)	(74,395)		(103,443)
Commission and other acquisition expenses	(5,977)	(10,675)	(20,097)		(36,749)
General and administrative expenses	(7,468)	(9,619)	(19,834)		(36,921)
Financing income (expenses), net	-	(14)	(483)	676	179
<b>Profit before taxes on income</b>	<b>2,670</b>	<b>9,176</b>	<b>17,759</b>	<b>11,764</b>	<b>41,369</b>

**AIG ISRAEL INSURANCE CO. LTD.**  
**NOTES TO CONDENSED FINANCIAL STATEMENTS (Continued)**

**NOTE 4 - SEGMENT INFORMATION** (continued):

	<b>For the 3-month period ended September 30, 2012 (unaudited)</b>				
	<b>Life assurance</b>	<b>Health insurance</b>	<b>General Insurance</b>	<b>Not apportionable to operating segments</b>	<b>Total</b>
	<b>NIS in thousands</b>				
Gross earned premiums	22,862	51,776	135,477		210,115
Premiums earned by reinsurers	(5,537)	(5,776)	(35,904)		(47,217)
Premiums earned by non-ceded business	17,325	46,000	99,573		162,898
Investment income, net and financing income	207	* 3,603	* 19,784	* 16,720	* 40,314
Commission income	1,108	1,869	10,464		13,441
Total income	18,640	51,472	129,821	16,720	216,653
Change in insurance liabilities and payments with respect to insurance contracts (gross)	(5,264)	(18,893)	(109,883)		(134,040)
Share of reinsurers in increase of insurance liabilities and payments with respect to insurance contracts	1,498	1,532	42,136		45,166
Payments and Change in insurance liabilities with respect to insurance contracts relating to non-ceded business.	(3,766)	(17,361)	(67,747)		(88,874)
Commission and other acquisition expenses	(4,806)	(12,864)	(16,517)		(34,187)
General and administrative expenses	(6,632)	(8,027)	(20,184)		(34,843)
Financing income (expenses), net	-	* (51)	* (886)	* 231	* (706)
Profit before taxes on income	3,436	13,169	24,487	16,951	58,043

\* Reclassified.

**AIG ISRAEL INSURANCE CO. LTD.**  
NOTES TO CONDENSED FINANCIAL STATEMENTS (Continued)

**NOTE 4 - SEGMENT INFORMATION** (continued):

	<b>For year ended December 31, 2012 (audited)</b>				
	<b>Life assurance</b>	<b>Health insurance</b>	<b>General insurance</b>	<b>Not Apportion able to operating segments</b>	<b>Total</b>
	<b>NIS in thousands</b>				
Gross earned premiums	89,467	198,231	539,460		827,158
Premiums earned by reinsurers	(21,017)	(21,696)	(142,988)		(185,701)
Premiums earned by non-ceded business	68,450	176,535	396,472		641,457
Investment income, net and financing income	165	9,806	54,425	32,843	97,239
Commission income	3,366	6,996	37,266		47,628
Total income	71,981	193,337	488,163	32,843	786,324
Change in insurance liabilities and payments with respect to insurance contracts (gross)	(30,624)	(79,215)	(293,851)		(403,690)
Share of reinsurers in increase of insurance liabilities and payments with respect to insurance contracts	10,107	6,946	135,737		152,790
Payments and Change in insurance liabilities with respect to insurance contracts relating to non-ceded business.	(20,517)	(72,269)	* (158,114)		(250,900)
Commission and other acquisition expenses	(20,760)	(48,638)	(77,974)		(147,372)
General and administrative expenses	(26,780)	(32,216)	(83,082)		(142,078)
Financing income (expenses), net	-	(187)	(3,255)	1,236	(2,206)
Profit before taxes on income	3,924	40,027	165,738	34,079	243,768
Gross liabilities with respect to insurance contracts as of December 31, 2012	25,433	126,525	1,257,382		1,409,340

\* As to change to accrual period in respect of the compulsory motor vehicle business, see note 3b.



**AIG ISRAEL INSURANCE CO. LTD.**

NOTES TO CONDENSED FINANCIAL STATEMENTS (Continued)

**NOTE 4 - SEGMENT INFORMATION** (continued):

**Additional information relating to general insurance segment:**

	For the 9 month period ended September 30, 2013 (unaudited)						
	<b>Compulsory motor vehicle</b>	<b>Motor vehicle property</b>	<b>Personal property</b>	<b>Professional liability</b>	<b>Other property branches (*)</b>	<b>Other liability branches (*)</b>	<b>Total</b>
	NIS in thousands						
Gross premiums	103,049	174,823	78,704	32,341	32,653	28,187	449,757
Reinsurance premiums	(1,447)	(82)	(15,885)	(26,972)	(31,077)	(23,872)	(99,335)
Premiums relating to non-ceded business	101,602	174,741	62,819	5,369	1,576	4,315	350,422
Change in balance of unearned premiums relating to non-ceded business	(9,370)	(14,515)	(3,040)	111	(86)	1,024	(25,876)
Premiums earned on non-ceded business	92,232	160,226	59,779	5,480	1,490	5,339	324,546
Investment income, net and financing income	12,833	3,949	2,651	3,356	653	4,232	27,674
Commission income	-	-	2,438	8,062	8,501	8,051	27,052
Total income	105,065	164,175	64,868	16,898	10,644	17,622	379,272
Increase in insurance liabilities and payments with respect to insurance contracts	(86,559)	(113,190)	(27,242)	(49,544)	(50,046)	(34,103)	(360,684)
Share of reinsurers in increase of insurance liabilities and payments with respect to insurance contracts	19,743	-	2,434	41,370	48,773	26,688	139,008
Increase in insurance liabilities and payments with respect to insurance contracts relating to non-ceded business	(66,816)	(113,190)	(24,808)	(8,174)	(1,273)	(7,415)	(221,676)
Commission, marketing expenses and other acquisition expenses	(10,186)	(18,605)	(9,950)	(8,839)	(5,946)	(7,430)	(60,956)
General and administrative expenses	(14,022)	(17,939)	(18,443)	(5,593)	(2,515)	(3,051)	(61,563)
Financing expenses, net	-	-	(47)	(706)	(142)	(925)	(1,820)
Total expenses	(91,024)	(149,734)	(53,248)	(23,312)	(9,876)	(18,821)	(346,015)
Profit (loss) before taxes on income	14,041	14,441	11,620	(6,414)	768	(1,199)	33,257
Gross liabilities with respect to insurance contracts as of September 30, 2013	628,430	149,971	59,287	224,990	83,354	264,903	1,410,935

\* The results of other property branches reflect mainly the results of the property insurance branch the operations of which attract 86% of the total premiums attributable to these branches.

The results of other liability branches reflect mainly the results of the third party warranty insurance branch, the operations of which attract 41% of the total premiums attributable to these branches.

**AIG ISRAEL INSURANCE CO. LTD.**  
NOTES TO CONDENSED FINANCIAL STATEMENTS (Continued)

**NOTE 4 - SEGMENT INFORMATION** (continued):

**Additional information relating to general insurance segment:**

	For the 9 month period ended September 30, 2012 (unaudited)						Total
	Compulsory Motor Vehicle	Motor vehicle property	Personal Property	Professional liability	Other property branches (**)	Other liability branches (**)	
NIS in thousands							
Gross premiums	86,435	153,425	74,413	34,185	38,245	43,648	430,351
Reinsurance premiums	(1,212)	(87)	(11,785)	(28,242)	(36,907)	(36,751)	(114,984)
Premiums relating to non-ceded business	85,223	153,338	62,628	5,943	1,338	6,897	315,367
Change in balance of unearned premiums relating to non-ceded business	(5,614)	(9,837)	(5,209)	499	(116)	(1,513)	(21,790)
Premiums earned on non-ceded business	79,609	143,501	57,419	6,442	1,222	5,384	293,577
Investment income, net and financing income	21,896	5,379	* 3,524	* 4,500	* 1,056	* 5,233	* 41,588
Commission income	-	-	2,035	8,311	9,114	9,851	29,311
Total income	101,505	148,880	62,978	19,253	11,392	20,468	364,476
Increase in insurance liabilities and payments with respect to insurance contracts	12,533	(97,725)	(19,314)	(16,282)	(24,646)	(73,147)	(218,581)
Share of reinsurers in increase in insurance liabilities and payments with respect to insurance contracts	10,447	-	1,410	9,720	23,050	59,923	104,550
Increase in insurance liabilities and payments with respect to insurance contracts relating to non-ceded business	(***) 22,980	(97,725)	(17,904)	(6,562)	(1,596)	(13,224)	(114,031)
Commission, marketing expenses and other acquisition expenses	(9,054)	(17,316)	(7,905)	(9,545)	(6,779)	(7,621)	(58,220)
General and administrative expenses	(14,894)	(17,715)	(17,425)	(4,853)	(2,079)	(2,430)	(59,396)
Financing expenses, net	-	-	* (67)	* (898)	* (262)	* (1,300)	* (2,527)
Total expenses	(968)	(132,756)	(43,301)	(21,858)	(10,716)	(24,575)	(234,174)
Profit (loss) before taxes on income	100,537	16,124	19,677	(2,605)	676	(4,107)	130,302
Gross liabilities with respect to insurance contracts as of September 30, 2012	575,797	131,024	56,842	185,338	69,202	257,011	1,275,214

\* Reclassified

\*\* The results of other property branches reflect mainly the results of the property insurance branch the operations of which attract 70% of the total premiums attributable to these branches.

The results of other liability branches reflect mainly the results of the third party warranty insurance branch, the operations of which attract 56% of the total premiums attributable to these branches.

\*\*\* As to change to accrual period in respect of the compulsory motor vehicle business, see note 3b.

**AIG ISRAEL INSURANCE CO. LTD.**  
NOTES TO CONDENSED FINANCIAL STATEMENTS (Continued)

**NOTE 4 - SEGMENT INFORMATION** (continued):

**Additional information relating to general insurance segment:**

	For the 3 month period ended September 30, 2013 (unaudited)						
	Compulsory Motor Vehicle	Motor vehicle property	Personal Property	Professional liability	Other Property Branches (*)	Other Liability Branches (*)	Total
	NIS in thousands						
Gross premiums	34,553	58,203	28,312	10,486	9,797	7,917	149,268
Reinsurance premiums	(480)	(27)	(6,417)	(8,618)	(9,220)	(6,605)	(31,367)
Premiums relating to non-ceded business	34,073	58,176	21,895	1,868	577	1,312	117,901
Change in balance of unearned premiums relating to non-ceded business	(1,732)	(2,593)	(1,942)	(13)	(15)	38	(6,257)
Premiums earned on non-ceded business	32,341	55,583	19,953	1,855	562	1,350	111,644
Investment income, net and financing income	5,803	1,908	1,215	1,570	273	1,853	12,622
Commission income	-	-	564	2,789	2,805	2,144	8,302
Total income	38,144	57,491	21,732	6,214	3,640	5,347	132,568
Increase in insurance liabilities and payments with respect to insurance contracts	(31,754)	(38,480)	(7,926)	(9,611)	(6,516)	(5,479)	(99,766)
Share of reinsurers in increase in insurance liabilities and payments with respect to insurance contracts	6,425	-	701	7,293	6,889	4,063	25,371
Increase in insurance liabilities and payments with respect to insurance contracts relating to non-ceded business	(25,329)	(38,480)	(7,225)	(2,318)	373	(1,416)	(74,395)
Commission, marketing expenses and other acquisition expenses	(3,405)	(6,697)	(2,693)	(3,080)	(2,029)	(2,193)	(20,097)
General and administrative expenses	(4,521)	(5,857)	(5,950)	(1,780)	(583)	(1,143)	(19,834)
Financing expenses, net	-	-	(13)	(234)	(15)	(221)	(483)
Total expenses	(33,255)	(51,034)	(15,881)	(7,412)	(2,254)	(4,973)	(114,809)
Profit (loss) before taxes on income	4,889	6,457	5,851	(1,198)	1,386	374	17,759

\* The results of other property branches reflect mainly the results of the property insurance branch the operations of which attract 87% of the total premiums attributable to these branches.

The results of other liability branches reflect mainly the results of the third party warranty insurance branch, the operations of which attract 44% of the total premiums attributable to these branches.

**AIG ISRAEL INSURANCE CO. LTD.**  
NOTES TO CONDENSED FINANCIAL STATEMENTS (Continued)

**NOTE 4 - SEGMENT INFORMATION** (continued):

**Additional information relating to general insurance segment:**

	For the 3 month period ended September 30, 2012 (unaudited)						Total
	Compulsory Motor Vehicle	Motor vehicle property	Personal Property	Professional liability	Other property branches (**)	Other liability branches (**)	
NIS in thousands							
Gross premiums	29,967	52,063	26,760	10,325	12,767	23,302	155,184
Reinsurance premiums	(415)	(30)	(4,554)	(8,444)	(12,354)	(19,225)	(45,022)
Premiums relating to non-ceded business	29,552	52,033	22,206	1,881	413	4,077	110,162
Change in balance of unearned premiums relating to non-ceded business	(2,620)	(3,301)	(2,727)	381	(128)	(2,194)	(10,589)
Premiums earned on non-ceded business	26,932	48,732	19,479	2,262	285	1,883	99,573
Investment income, net and financing income	10,247	2,730	* 1,736	* 2,093	* 503	* 2,475	* 19,784
Commission income	-	-	499	2,906	2,976	4,083	10,464
Total income	37,179	51,462	21,714	7,261	3,764	8,441	129,821
Increase in insurance liabilities and payments with respect to insurance contracts	(24,413)	(33,088)	(6,885)	(2,658)	(12,749)	(30,090)	(109,883)
Share of reinsurers in increase in insurance liabilities and payments with respect to insurance contracts	5,185	-	467	301	12,177	24,006	42,136
Increase in insurance liabilities and payments with respect to insurance contracts relating to non-ceded business	(19,228)	(33,088)	(6,418)	(2,357)	(572)	(6,084)	(67,747)
Commission, marketing expenses and other acquisition expenses	(2,324)	(5,044)	(1,612)	(3,286)	(1,746)	(2,505)	(16,517)
General and administrative expenses	(5,096)	(6,069)	(5,918)	(1,634)	(684)	(783)	(20,184)
Financing expenses, net	-	-	* (23)	* (306)	* (93)	* (464)	* (886)
Total expenses	(26,648)	(44,201)	(13,971)	(7,583)	(3,095)	(9,836)	(105,334)
Profit (loss) before taxes on income	10,531	7,261	7,743	(322)	669	(1,395)	24,487

\* Reclassified

\*\* The results of other property branches reflect mainly the results of the property insurance branch the operations of which attract 82% of the total premiums attributable to these branches.

The results of other liability branches reflect mainly the results of the third party warranty insurance branch, the operations of which attract 69% of the total premiums attributable to these branches.

**AIG ISRAEL INSURANCE CO. LTD.**  
NOTES TO CONDENSED FINANCIAL STATEMENTS (Continued)

**NOTE 4 - SEGMENT INFORMATION** (continued):

**Additional information relating to general insurance segment**

	For year ended December 31, 2012 (audited)						Total
	Compulsory motor vehicle	Motor vehicle property	Personal Property	Professional liability	Other property branches (*)	Other liability branches (*)	
NIS in thousands							
Gross premiums	115,247	200,477	96,381	45,864	44,443	51,362	553,774
Reinsurance premiums	(1,616)	(115)	(15,683)	(38,227)	(42,987)	(43,348)	(141,976)
Premiums relating to non-ceded business	113,631	200,362	80,698	7,637	1,456	8,014	411,798
Change in balance of unearned premiums relating to non-ceded business	(5,992)	(6,736)	(3,273)	1,093	(24)	(394)	(15,326)
Premiums earned on non-ceded business	107,639	193,626	77,425	8,730	1,432	7,620	396,472
Investment income, net and financing income	28,410	7,291	4,864	5,812	1,277	6,771	54,425
Commission income	-	-	2,623	11,369	10,662	12,612	37,266
Total income	136,049	200,917	84,912	25,911	13,371	27,003	488,163
Payments and Change in insurance liabilities with respect to insurance contracts (gross)	(1,966)	(127,957)	(25,399)	(22,602)	(28,183)	(87,744)	(293,851)
Share of reinsurers in increase of insurance liabilities and payments with respect to insurance contracts	19,763	-	2,052	13,526	26,424	73,972	135,737
Payments and Change in insurance liabilities with respect to insurance contracts relating to non-ceded business	** 17,797	(127,957)	(23,347)	(9,076)	(1,759)	(13,772)	(158,114)
Commission, marketing expenses and other acquisition expenses	(11,868)	(23,894)	(11,112)	(12,899)	(8,241)	(9,960)	(77,974)
General and administrative expenses	(20,793)	(24,920)	(24,672)	(6,481)	(3,047)	(3,169)	(83,082)
Financing expenses, net	-	-	(84)	(1,169)	(288)	(1,714)	(3,255)
Total expenses	(14,864)	(176,771)	(59,215)	(29,625)	(13,335)	(28,615)	(322,425)
Profit (loss) before taxes on income	121,185	24,146	25,697	(3,714)	36	(1,612)	165,738
Gross liabilities with respect to insurance contracts as of December 31, 2012	578,753	126,232	53,900	185,635	57,578	255,284	1,257,382

\* The results of other property branches reflect mainly the results of the property insurance branch the operations of which attract 86% of the total premiums attributable to these branches.

The results of other liability branches reflect mainly the results of the product warranty insurance branch, the operations of which attract 54% of the total premiums attributable to these branches.

\*\* As to change to accrual period in respect of the compulsory motor vehicle business, see note 3.

**AIG ISRAEL INSURANCE CO. LTD.**  
NOTES TO CONDENSED FINANCIAL STATEMENTS (Continued)

**NOTE 5 - SHAREHOLDERS' EQUITY AND CAPITAL REQUIREMENTS:**

**Management and capital requirements:**

- 1) Management pursues a policy of maintaining a sound equity base, thereby allowing the Company to continue operations in such manner that will enable it to provide a return to its shareholders and undertake future commercial operations. The Company is required to adhere to the capital requirements laid down by the Supervisor.
- 2) The table below provides information with respect to the capital requirements as set out in the capital regulations and the amendments thereto and in the directives of the Supervisor, together with information relating to the level of the Company's existing capital.

Company's existing capital with respect to the capital requirements

	<b>September 30</b>		<b>December 31,</b>
	<b>2013</b>	<b>2012</b>	<b>2012</b>
	<b>(Unaudited)</b>		<b>(Audited)</b>
The amount required under capital regulations and Supervisor guidelines (a)	<u>497,330</u>	<u>435,773</u>	<u>436,785</u>
Existing amount computed under capital regulations:			
Primary capital	<u>634,250</u>	<u>532,705</u>	<u>577,104</u>
Total existing capital existing computed under capital requirements	<u>634,250</u>	<u>532,705</u>	<u>577,104</u>
Surplus	<u>136,920</u>	<u>96,932</u>	<u>140,319</u>

Aside from the general requirements of the Companies' Law, the payment of a dividend out of the equity surpluses of insurance companies is also subject to compliance with liquidity requirements and the provisions of the investment regulations. For this purpose, the investments for which it is obligatory to set against equity surplus in accordance with the Supervisors instructions constitute surplus that is not distributable.

- a. The amount required includes inter alia, capital requirements, with respect to:

	<b>September 30</b>		<b>December 31,</b>
	<b>2013</b>	<b>2012</b>	<b>2012</b>
	<b>(Unaudited)</b>		<b>(Audited)</b>
	<b>NIS in thousands</b>		
Operations related to general insurance	116,385	110,805	108,966
Exceptional life assurance risks	25,715	21,860	22,762
Deferred acquisition expenses in relation to life assurance	77,458	71,370	73,464
Investment assets and other assets	58,750	52,898	48,058
Catastrophe risk related to general insurance	190,460	152,997	158,058
Operating risks	28,562	25,843	25,477
<b>T o t a l</b>	<u>497,330</u>	<u>435,773</u>	<u>436,785</u>

**AIG ISRAEL INSURANCE CO. LTD.**  
NOTES TO CONDENSED FINANCIAL STATEMENTS (Continued)

**NOTE 6 - TAXES ON INCOME**

Income tax calculation in the reported period is based on the best estimation of the weighted average of expected tax rates for the full fiscal year. The expected average annual tax rate for the year ended December 31, 2013 is 36.22%. The increase in the average tax rate over the average rate for the Company in 2012 (35.53%) is mainly due to the increase in the profit tax rate on June 1, 2013 from 17% to 18%.

In addition, on July 30, 2013, the Arrangements Law was passed into law, raising the corporate tax rate beginning on January 1, 2014 from 25% to 26.5% (instead of 25%).

Due to the expected change, the balances representing company's provision for deferred taxes as of September 30, 2013 were updated. Due to the said change, the company recorded deferred income tax expenses of NIS 555 thousands during the reported period.

**NOTE 7 - CONTINGENT LIABILITIES - CLASS ACTIONS:**

- a.** A legal claim has been filed against the company and against 5 other insurance companies in February 2011; the plaintiff has also filed an application to approve the claim as a class action. The plaintiff claims that the company does not pay full compensation in respect of decrease in value of a car due to damages caused as a result of an accident, but rather pays a reduced compensation. The plaintiff claims that the computation of this reduced decrease in value was made based on the report of the Sasson committee, which set parameters for computation of decrease in value.

According to the claimant, he was misled by the company and as a result suffered financial losses. The remedy requested is a declaration to the effect that the company is obliged to disclose its insured motorists the manner in which it computation of decrease in value of the vehicle; such disclosure should be made in advance when a quote is issued to the potential client.

The plaintiff therefore claims refund of the premium paid by each insured motorist for the insurance policy, since such a policy constitutes an insurance agreement that was entered into by deceit. The plaintiff assesses the number of vehicles that were insured per year by the Company at 47,264; the average premium was NIS 2,000; (if the rate of insured motorists that had insurance claims during that year is reduced- a rate of 20%) then the total amount of premium is NIS 529,390,400. This amount pertains to all motorists insured by the company during the last 7 years.

An alternative remedy is the refund of NIS 150 per each motorist -which is the difference between a premium with rate of excess of 1.5% and a premium with rate of excess of 5%. The amount demanded for all motorists insured by the company in the seven years that preceded the legal claim that was filed is NIS 39,704,700.

Another alternative remedy is compensation at an amount equal to the policy component representing the decrease in value of the vehicle - app. NIS 800 per each motorist. The amount demanded for all motorists insured by the company for the last seven years is NIS 264,678,400.

**AIG ISRAEL INSURANCE CO. LTD.**  
NOTES TO CONDENSED FINANCIAL STATEMENTS (Continued)

**NOTE 7 - CONTINGENT LIABILITIES - CLASS ACTIONS** (continued):

On a hearing taking place on May 13, 2012, the claimant was convinced to withdraw the claim. In view of the claimant's exaggerated demands in connection with fees and remuneration to the class action claimant, it was agreed to leave the matter to the discretion of the court with each party submitting its claims to the court.

After filing the Company's claims, the court ordered the payment of a amount of 10,000 NIS provided to the plaintiff and his attorneys.

On September 10, 2012, the plaintiffs filed an appeal to the Supreme Court, requesting that the Court cancels the ruling of the District Court and resumes discussions relating to the compensation payable to the plaintiffs, to expenses and legal fees. Alternatively, the plaintiffs request that the Supreme Court increases the said amounts.

The Supreme Court shall hear the appeal on December 23, 2013.

The Company's legal counsels assess that it is more likely than not that the Court will reject the appeal.

- b.** A legal claim and an application to approve the claim as a class action were filed against the company and 6 other insurance companies in December 2012. According to the plaintiffs, in 2007 the Transportation Ordinance was changed to the effect that the classification of the plaintiffs' vehicle was changed from a commercial vehicle to a private vehicle. Despite the change in classification as above, the insurance companies allegedly continued to classify the plaintiffs' vehicles as commercial vehicles for purposes of collection of comprehensive insurance/third party insurance and compulsory vehicle insurance, thereby collecting a higher premium. The premium was only collected in respect of vehicles through 2007, whereas for vehicles from 2008 and thereafter a lower premium was collected.

According to the legal claim, the insurance companies are required to price the premium in accordance with the classification set in the Transportation Ordinance and since they have not done so they should refund the insured persons and entities with the amounts collected in excess of the lawful premiums.

The group in the name of whom the legal claim was lodged is the group of insured persons and entities the classification of the vehicles of which was changed in the last seven years.

Total damages claimed from the company in respect of property insurance amount to NIS 22,296,660. The legal claim does not provide an estimate of the amount collected in excess of the amount legally due for compulsory vehicle insurance.

The Company filed its response to a motion for class action certification on June 2, 2013, and on July 7, 2013 the plaintiff filed his response to defendant's response to motion to certificate.



**AIG ISRAEL INSURANCE CO. LTD.**  
NOTES TO CONDENSED FINANCIAL STATEMENTS (Continued)

**NOTE 7 - CONTINGENT LIABILITIES - CLASS ACTIONS** (continued):

On July 10, 2013, a pretrial hearing was held, where the court concluded that the Company and the other defendants may file a rejoinder on their behalf on the motion for class action certification through October 6, 2013. Further, the court decided that to the extent that the plaintiffs will be interested to file a motion for discovery of specific documents, they must do so within 30 days, a response as above will be filed within 14 days and a response thereto will be filed within 7 days, with court recess period counted. In addition, a deposition cross examination was scheduled for February 24, 2014 and March 6, 2014.

The plaintiffs filed an application for disclosure of documents and reply for questionnaire. The company filed an objection to the application and the Court has not yet ruled with regard to this application.

The legal counsel believes that it is more likely than not that the lawsuit will be rejected. The assessment is based on the fact that no legal obligation exists to classify a vehicle as it is classified in the vehicle licensing. In addition, each insurer has the freedom to compute premium as it sees fit.

- c. A legal claim and an application to approve the claim as a class action were filed against the company and 14 other insurance companies on January 13, 2013.

According to the plaintiff – Ms. Ilanit Nadav – she was insured under a compulsory vehicle insurance policy with the Israel Motor Insurance Pool (hereafter – "the pool"). According to the policy issued to the plaintiff, the insurance period commences at the date of payment of premium but not before April 1, 2008. The plaintiff paid the premium on April 7, 2008 – a day after she was injured in a car accident. The plaintiff's insurance claim for indemnification for damage caused in the accident was rejected and it was determined that at the date on which the accident happened she did not have a valid insurance policy.

According to the plaintiff, the pool has charged her for insurance premium in respect of 6 days on which she was not insured (1-6.4.2008). Therefore, she demands repayment of the insurance premium in respect of these 6 days.

The company is being sued in respect of its share in the pool (average of 2.5%) and in respect of the compulsory vehicle insurances it uses to insure directly.

According to the statement of claim, 18% of the persons and entities insured under compulsory vehicle insurance policies pay the premium after the due date. On average, insured persons and entities pay the premium 3 days after the due date. According to computations of the plaintiff, the amount claimed from the company is NIS 1,050,000.

On June 5, 2013 the company filed its reply to the application to approve the claim as a class action and the plaintiff filed her reply to the company's reply on October 15, 2013. A pretrial hearing took place on October 31, 2013; in the course of the hearing the Court noted its impression that in actual fact the insurers collect premium for a period during which they are free of risk and that this might be inappropriate in light of the Supreme Court's ruling in the case of Migdal vs. Zipui Matahot (3489/09).

**AIG ISRAEL INSURANCE CO. LTD.**  
NOTES TO CONDENSED FINANCIAL STATEMENTS (Continued)

**NOTE 7 - CONTINGENT LIABILITIES - CLASS ACTIONS** (continued):

The company emphasized to the Court that the insurance companies are operating within the law and regulations of this highly regulated line of insurance and that they cannot depart from the wording of the insurance certificate that is prescribed by law. Also, the collection of premium and specification of the dates in the certificate are made in accordance with the Motor Vehicle Insurance Regulations (a Residual Insurance Arrangement and a Mechanism for Setting Rates), 2001, the Supervision of Financial Services (Insurance) Regulations (Terms of Compulsory Insurance Contract of Motor Vehicles), 2010 and the requirements of the circular issued by the Supervisor of Insurance (titled "Insurance Fees in the Compulsory Motor Vehicle Insurance Line", dated August 10, 2005.

The Court ruled that at this stage the application to approve the claim as a class action lacks privity in the case of the insurance companies; privity only exists in the case of the pool since the pool is a separate legal entity. The Court allowed the attorneys of the applicant to file an application to amend the above application so that applicants shall be joined also with respect to the remaining insurance companies; application as above can be filed through 31.01.2014.

The respondents may reply to the amended application within 14 days and the applicant may reply the reply as above within 7 days. A further preliminary hearing was set to March 24, 2014.

The legal counsel believes that it is more likely than not that the motion for certification of class action will be rejected.

- d.** On June 9, 2013, Ms. Talya Cohen and Mr. Reuven Cohen (hereinafter - the plaintiffs) filed to the Tel Aviv Yaffo District Court a motion for certification of a NIS 165,075,000 class action against the Company.

The lawsuits deals with the argument of the plaintiffs that the Company violates the provisions of the Communications Law, 1982, including section 30A of that law that prohibits the distribution of advertisements, including through short text messages, other than in compliance with the explicit conditions as specified by the Communications law, and a violation of the Privacy Protection Law, 1981, and especially the provision on "direct mailing" as specified in the Privacy Protection Law.

The plaintiffs claim that text messages sent by the Company on the renewal of comprehensive vehicle insurance policy of the plaintiffs is a prohibited "advertisement" as defined by section 30A of the Communications Law. The plaintiffs further argue that the text messages sent by the Company are "direct mailing", and that such direct mailing was done in violation of the Privacy Protection Law.

The plaintiffs argue that sending text messages without consent and their attempts to remove themselves from the mailing list were unsuccessful, due to the requirement of the Company to make use of unreasonable identification in the circumstances of this matter for identifying the plaintiffs.

The plaintiffs claim that the underlying goal of sending the text messages was to pressure them to renew the insurance policy, without any true possibility for removal from text messaging list, but only through many conditions that compromise individual rights, freedom of selection and privacy.

**AIG ISRAEL INSURANCE CO. LTD.**  
NOTES TO CONDENSED FINANCIAL STATEMENTS (Continued)

**NOTE 7 - CONTINGENT LIABILITIES - CLASS ACTIONS** (continued):

The plaintiffs argue that the Supervisor of Insurance has prohibited a practice that was common in the past of automatically renewing vehicle insurance policies at the end of policy term, but the defendant nonetheless found a way around that to continue with this practice. The plaintiffs further argue that in any event, this case does not involve compulsory vehicle insurance, but comprehensive insurance only, which is voluntary.

The plaintiffs argue that the Company has violated the provisions of the Privacy Protection Law with regards to what is permitted and prohibited in managing databases for direct mailing services under sections 17D and 17F (a) of the Privacy Protection Law about the duty to indicate the source for collecting information for the database, and disclosing that a call is made through direct mailing and disclosing the database registration number.

The plaintiffs further ask for compensation for violating section 30A(i) of the Communications Law, stating that such violation is a civil tort which is subject to the provisions of the Civil Wrongs Ordinance, as well as a general compensation for aggravation.

The plaintiffs refer to the provisions of the amended Class Action Law, 2006 which explicitly added section 30A of the Communications Law to the list of qualifying violations and the law's provisions allowing to pursue a class action.

The plaintiffs refer to section 20(c) of the Class Action Law, arguing that that section indicates that in cases where damage to each member of the class may not be quantified accurately, nor members can be identified, the legislature allows to compensate the public at large.

The plaintiffs argue that the Company has 74,663 property insurance clients, based on data by the Supervisor of Capital Markets, Insurance and Savings for 2011, which indicates that 2,333,247 vehicles are insured for property damages, and that the Company has a 3.2% market share. The plaintiffs then go on to assume that each member of the class was sent one to four violating advertisement by the Company, or two violating messages on average over the last five years. Therefore, and according to a compensation of NIS 1,000 per message, the plaintiffs estimated the damage of the class for this head of tort at NIS 746,630,000.

Alternatively, the plaintiffs ask that the lawsuit amount will be determined based on an opinion of a court-appointed expert. However, as the plaintiffs do not have the full and accurate data, they set the amount of damage for this head of tort at NIS 150,000,000 subject to preserving the right to revise this amount based on the full and appropriate amount received from the Company.

In addition, the plaintiffs argue that the damage caused to members of the class for lack of option for removal without pay is the cost of calls caused to the plaintiffs at an estimated NIS 75,000.

The plaintiffs further argue that class members need to be additionally compensated for non-monetary damages that were caused to them including, general damage, mental damage, a compromise of autonomy, damage to privacy, inconvenience, nuisance and failure to comply with the law regarding databases, which were quantified by the plaintiffs at NIS 15,000,000.

**AIG ISRAEL INSURANCE CO. LTD.**  
 NOTES TO CONDENSED FINANCIAL STATEMENTS (Continued)

**NOTE 7 - CONTINGENT LIABILITIES - CLASS ACTIONS** (continued):

The plaintiffs request, among other things, the following reliefs:

- 1) Certify the claim as class action with estimated monetary and non-monetary damages of NIS 165,075,000.
- 2) An injunction against the defendant, prohibiting it from such unlawful conduct so as to refrain from sending violating messages and change the defective mechanism for removal and align it with provisions of the law.
- 3) Order the defendant to provide the plaintiffs and the class relevant data and summary reports on the scale of sending the violating advertisements or, alternatively, to appoint an expert on the behalf of the court.
- 4) To determine the fee of the attorneys representing the plaintiffs in the motion for class action certification.

Company's legal advisors are of the opinion that it is more likely than not that the application will be rejected by the Court.

If the lawsuit is certified as a class action, it is not possible, in the opinion of the legal counsel at this preliminary stage to assess the likelihood of class action success and the financial charge on the Company if the class action is approved, that, among other things, because the scale and substance of discussing the matter of this case after class action certification will be affected by the decision of the court on the motion for class action certification, which usually refers to the causes of the certified and uncertified causes of the lawsuits, approved and unapproved reliefs etc.

Set forth below are the details of the applications for approval of legal claims as class actions:

	<b>Number of claims</b>	<b>The amount claimed NIS in thousands</b>
Pending applications for approval of legal claims as class actions:		
An amount relating to the company was specified	4	717,812

**AIG ISRAEL INSURANCE CO. LTD.**  
NOTES TO CONDENSED FINANCIAL STATEMENTS (Continued)

**APPENDIX - DETAILS OF ASSETS REPRESENTING FINANCIAL INVESTMENTS**

**Details of financial investments:**

	<b>As of September 30, 2013 (Unaudited)</b>		
	<b>Measured at fair value through profit or loss</b>	<b>Loans and receivables</b>	<b>Total</b>
	<b>NIS in thousands</b>		
Marketable debt instruments	1,049,229	-	1,049,229
Non-marketable debt instruments	-	106,566	106,566
Marketable shares	74,905	-	74,905
Other	86,158	-	86,158
<b>Total</b>	<b>1,210,292</b>	<b>106,566</b>	<b>1,316,858</b>

	<b>As of September 30, 2012 (Unaudited)</b>		
	<b>Measured at fair value through profit or loss</b>	<b>Loans and receivables</b>	<b>Total</b>
	<b>NIS in thousands</b>		
Marketable debt instruments	1,022,360	-	1,022,360
Non-marketable debt instruments	70,216	70,216	-
Marketable shares	62,529	-	62,529
Other	101,243	-	101,243
<b>Total</b>	<b>1,256,348</b>	<b>70,216</b>	<b>1,186,132</b>

	<b>As of December 31, 2012 (Audited)</b>		
	<b>Measured at fair value through profit or loss</b>	<b>Loans and receivables</b>	<b>Total</b>
	<b>NIS in thousands</b>		
Marketable debt instruments	1,099,646	-	1,099,646
Non-marketable debt instruments	-	77,925	77,925
Marketable shares	68,284	-	68,284
Other	93,487	-	93,487
<b>Total</b>	<b>1,261,417</b>	<b>77,925</b>	<b>1,339,342</b>

**AIG ISRAEL INSURANCE CO. LTD.**  
NOTES TO CONDENSED FINANCIAL STATEMENTS (Continued)

**APPENDIX - DETAILS OF ASSETS REPRESENTING FINANCIAL INVESTMENTS (continued):**

**Details of financial investments (continued):**

- 1) Composition of marketable debt instruments (earmarked upon initial recognition for the fair value through profit or loss category):

	<b>As of September 30, 2013</b>	
	<b>(Unaudited)</b>	
	<b>Book value</b>	<b>Reduced cost</b>
	<b>NIS in thousands</b>	
Government debentures	705,242	701,368
Other marketable debt instruments:		
Other marketable debt instruments that are not convertible	343,864	335,944
Other marketable debt instruments that are convertible	123	124
<b>Total marketable debt instruments</b>	<b>1,049,229</b>	<b>1,037,436</b>

	<b>As of September 30, 2012</b>	
	<b>(Unaudited)</b>	
	<b>Book value</b>	<b>Reduced cost</b>
	<b>NIS in thousands</b>	
Government debentures	744,995	726,575
Other marketable debt instruments:		
Other marketable debt instruments that are not convertible	277,365	274,009
Other marketable debt instruments that are convertible	-	-
<b>Total marketable debt instruments</b>	<b>1,022,360</b>	<b>1,000,584</b>

	<b>As of December 31, 2012</b>	
	<b>(Audited)</b>	
	<b>Book value</b>	<b>Reduced cost</b>
	<b>NIS in thousands</b>	
Government debentures	810,322	787,010
Other marketable debt instruments:		
Other marketable debt instruments that are not convertible	289,324	283,778
Other marketable debt instruments that are convertible	-	-
<b>Total marketable debt instruments</b>	<b>1,099,646</b>	<b>1,070,788</b>

**AIG ISRAEL INSURANCE CO. LTD.**  
NOTES TO CONDENSED FINANCIAL STATEMENTS (Continued)

**APPENDIX - DETAILS OF ASSETS REPRESENTING FINANCIAL INVESTMENTS(continued):**

**Details of other financial investments (continued):**

2) Composition of non-marketable debt instruments:

	<b>As of September 30, 2013</b>	
	<b>(Unaudited)</b>	
	<b>Book value</b>	<b>Fair value</b>
	<b>NIS in thousands</b>	
Other marketable debt instruments that are not convertible	106,566	107,997
Total non-marketable debt instruments	<u>106,566</u>	<u>107,997</u>
	<b>As of September 30, 2012</b>	
	<b>(Unaudited)</b>	
	<b>Book value</b>	<b>Fair value</b>
	<b>NIS in thousands</b>	
Other marketable debt instruments that are not convertible	70,216	72,148
Total non-marketable debt instruments	<u>70,216</u>	<u>72,148</u>
	<b>As of</b>	
	<b>December</b>	
	<b>31, 2012</b>	
	<b>(Audited)</b>	
	<b>Book value</b>	<b>Fair value</b>
	<b>NIS in</b>	
	<b>thous</b>	
	<b>ands</b>	
Other marketable debt instruments that are not convertible	77,925	83,480
Total non-marketable debt instruments	<u>77,925</u>	<u>83,480</u>

**AIG ISRAEL INSURANCE CO. LTD.**  
 NOTES TO CONDENSED FINANCIAL STATEMENTS (Continued)

**APPENDIX - DETAILS OF ASSETS REPRESENTING FINANCIAL INVESTMENTS** (continued):

**Details of other financial investments** (continued):

- 3) Shares (earmarked upon initial recognition for the fair value through profit or loss category):

	<b>As of September 30, 2013</b>	
	<b>(Unaudited)</b>	
	<b>Book value</b>	<b>Cost</b>
	<b>NIS in thousands</b>	
Marketable shares	74,905	71,305
	<b>As of September 30, 2012</b>	
	<b>(Unaudited)</b>	
	<b>Book value</b>	<b>Cost</b>
	<b>NIS in thousands</b>	
Marketable shares	62,529	67,017
	<b>As December 31, 2012</b>	
	<b>(Audited)</b>	
	<b>Book value</b>	<b>Cost</b>
	<b>NIS in thousands</b>	
Marketable shares	68,284	68,141



**AIG ISRAEL INSURANCE CO. LTD.**  
NOTES TO CONDENSED FINANCIAL STATEMENTS (Continued)

**APPENDIX - DETAILS OF ASSETS REPRESENTING FINANCIAL INVESTMENTS** (continued)

**Details of other financial investments** (continued):

- 4) Other financial investments (earmarked upon initial recognition for the fair value through profit or loss category):

		<b>As of September 30, 2013</b>	
		<b>(Unaudited)</b>	
		<u>Book value</u>	<u>Cost</u>
		<u>NIS in thousands</u>	
	Marketable financial investments	<u>86,158</u>	<u>78,212</u>
		<b>As of September 30, 2012</b>	
		<b>(Unaudited)</b>	
		<u>Book value</u>	<u>Cost</u>
		<u>NIS in thousands</u>	
	Marketable financial investments	<u>101,243</u>	<u>98,575</u>
		<b>As December 31, 2012</b>	
		<b>(Audited)</b>	
		<u>Book value</u>	<u>Cost</u>
		<u>NIS in thousands</u>	
	Marketable financial investments	<u>93,487</u>	<u>89,488</u>

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